



PALACE CAPITAL plc

THE REGIONAL PROPERTY INVESTMENT COMPANY

Annual Report and Accounts 2017



Uniquely positioned ☒
Sector-leading returns ☒





PALACE CAPITAL plc

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Palace Capital is a UK-listed property investment company that focuses on commercial real estate outside London.

Our strategy is to build a diversified portfolio with sector leading income and capital returns, through opportunistic corporate and direct property acquisitions and innovative asset management initiatives.



Identified as one of the top 25 property growth companies



CONTENTS

OVERVIEW

- 01 Highlights
- 02 At a glance
- 04 Investment case

STRATEGIC REPORT

- 08 Market Overview
- 10 Business Model & Strategy
- 12 Chief Executive's review
- 14 Property review
- 18 Financial review
- 22 Risk management

GOVERNANCE

- 26 Statement of Corporate Governance
- 28 Board of Directors
- 30 Directors' report
- 32 Statement of Directors' responsibilities
- 33 Directors' remuneration
- 37 Independent Auditor's report

FINANCIAL STATEMENTS

- 40 Consolidated Statement of Comprehensive Income
- 41 Consolidated Statement of Financial Position
- 42 Consolidated Statement of Changes in Equity
- 43 Consolidated Statement of Cash Flows
- 44 Notes to the Consolidated Financial Statements
- 72 Company Statement of Financial Position
- 73 Company Statement of Changes in Equity
- 74 Notes to the Company Financial Statements

COMPANY INFORMATION

- 80 Notice of Annual General Meeting
- 84 Officers and Professional Advisors
- 85 Glossary

01 Highlights

OVERVIEW

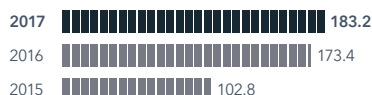
Our uniquely positioned regional portfolio continues to outperform the sector, delivering sustainable income and capital returns reflected in EPRA NAV per share up 7% to 443p and enabling us to increase dividends by 16% to 18.5p for the year.

FINANCIAL HIGHLIGHTS

ASSETS UNDER MANAGEMENT

£183.2m

+6%



EPRA NAV* £M

£111.8m

+5%



EPRA NAV PER SHARE*

443p

+7%



ADJUSTED PBT £M

£6.7m

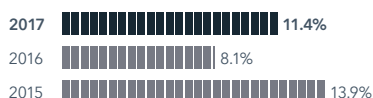
+20%



TOTAL ACCOUNTING RETURN %

11.4%

+41%



DIVIDEND PER SHARE PENCE

18.5p

+16%



FINANCIAL HIGHLIGHTS

- IFRS Profit before tax: increased by 7% to £12.6m (31 March 2016: £11.8m) reflecting a combination of trading profit, revaluation gains and profit on disposals
- Portfolio valuation at 31 March 2017: increased by 6% to £183.2m (31 March 2016: £173.4m)
- EPRA NAV per share*: increased by 7% to 443p at 31 March 2017 (31 March 2016: 414p)
- Adjusted profit before tax*: increased by 20% to £6.7m (2016: £5.6m)
- Adjusted EPS*: increased by 17% to 22.2p (31 March 2016: 18.9p)
- Final dividend: 9.5p proposed, making a total for the year of 18.5p, a 16% increase (31 March 2016: 16.0p)

OPERATIONAL HIGHLIGHTS

- Acquisition: Boulton House, Central Manchester office building for £10.6m at a NIY 5.5% and reversionary yield of 8.5%
- 13 sales, totalling £12.6m, generating £3.2m profit
- Total ownership as at 31 March 2017 of 44 properties across 1.6m sq ft with over 165 leases
- Overall occupancy of investment portfolio up to 91%** (2016: 89%)

ASSET MANAGEMENT HIGHLIGHTS

- Application for planning permission at Hudson House, Central York submitted in March 2017 to include 127 apartments, 34,000 sq ft offices, 5,000 sq ft commercial space and car parking
- £2.1m conversion of the vacant first floor offices at Dartford into 13 self-contained flats was successfully let for 10 years to Dartford Borough Council at a rental of £146,500 per annum
- Rent roll of £12.7m at 31 March 2017 (reduced from £13.5m at 31 March 2016 as a result of recent disposals)
- Weighted average unexpired lease term to break of 5.8 years (31 March 2016: 6.3 years)

* We report a number of Alternative Performance Measures ('APMs') including EPRA and Adjusted earnings measures detailed in the glossary of terms to improve the transparency and comparability with other listed European real estate companies

** Overall occupancy is adjusted to exclude Hudson House, York, which is currently held for development

02 At a Glance

OVERVIEW

Our objective is to out-perform both the income-focused REITs and capital focused developers. As a result of our uniquely positioned regional portfolio and experienced management team, we actively manage our assets to generate sustainable income and capital growth.

Diversified regional portfolio

SECTOR OVERVIEW



OFFICE



LEISURE



INDUSTRIAL



RETAIL

RETAIL
WAREHOUSE

At 31 March 2017 our portfolio consisted of 44 properties comprising over 1.6m sq ft of lettable space, balanced sensibly across multiple sectors and locations throughout the UK. 165 tenants occupy our properties with a weighted sector split as follows:

TOP TEN TENANTS

Tenant	Industry	Contracted Rent £'000	Percentage of total rent roll
vue	Leisure	865	6.7%
WALKER MORRIS	Legal	578	4.4%
ACCOR HOTELS	Hotels	510	3.9%
Rockwell Automation	Auto	399	3.1%
Wickes	Retail	355	2.7%
brose <small>Technik für Automobile</small>	Auto	325	2.5%
BRAVISSIMO	Retail	284	2.2%
NHS	Health	262	2.0%
The Forensic Science Service	Research & Development	260	2.0%
APCOA	Car Parking	250	2.0%

STRATEGY AND INVESTMENT PHILOSOPHY

Our uniquely positioned regional portfolio enables us to capitalise on the supply-demand imbalance in the regions outside London as well as providing attractive space for tenants at affordable rents.

We generate profits on disposals by recycling capital out of non-core assets.

We target acquisitions that will benefit from our innovative asset management initiatives in order to grow sustainable cash returns.

Our core portfolio benefits from high occupancy, generating secure and sustainable income returns.

We invest in refurbishment and capital development programmes within the existing portfolio to unlock capital growth.



View our strategy
on pages 10 to 11

03

OVERVIEW

Our unique approach to managing a growing regional portfolio has resulted in sector-leading income and capital growth. In the past 3.5 years the underlying net asset value per share of the business has increased 103% and growing sustainable income has fuelled our progressive dividend policy, increasing dividends to 18.5p for the current financial year.

TOTAL ASSETS
UNDER MANAGEMENT

£183.2^m

NUMBER OF
PROPERTIES

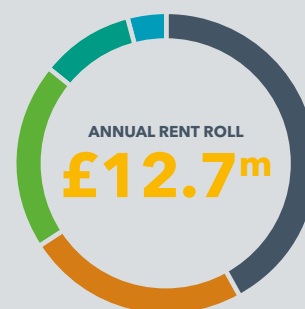
44

NUMBER OF
TENANTS

165

A PROPERTY PORTFOLIO OUTSIDE LONDON

Our property portfolio is diversified by sector and location, providing enhanced returns to our investors whilst mitigating sector specific risk.



SECTOR

42%	£76.1m		OFFICE
24%	£51.8m		LEISURE
20%	£30.9m		INDUSTRIAL
10%	£13.5m		RETAIL
4%	£10.9m		RETAIL WAREHOUSE



View our property review
on pages 14 to 17

04 Investment Case

OVERVIEW

Palace Capital has a track record of out-performing the UK real estate sector, growing shareholder value measured on a net asset value per share basis.

What makes us different?

01

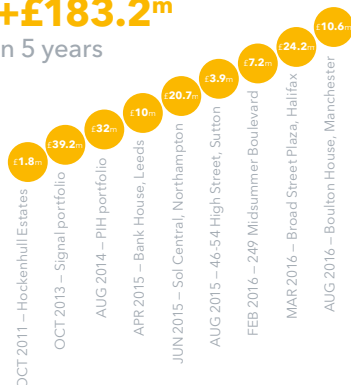
Direct Corporate Acquisitions

The team specialises in off-market corporate acquisitions which are tax-efficient and have minimal purchase costs to absorb.

In this way the company has grown its portfolio to £183.2m having raised £64.5m equity.

Growth Story

+£183.2m
in 5 years



View our Business Model
on pages 10 to 11

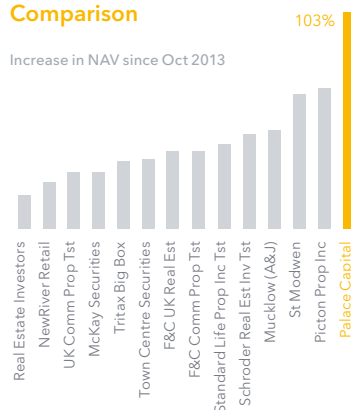
02

Entrepreneurial Approach

We are opportunistic in our approach to stock selection. We are not restricted to one sector, therefore we are able to evaluate each opportunity on its own merits resulting in a diversified portfolio. We apply innovative asset management strategies in order to unlock potential and grow sustainable cash returns.

Peer Group Performance Comparison

Increase in NAV since Oct 2013



View our Property Review
on pages 14 to 17

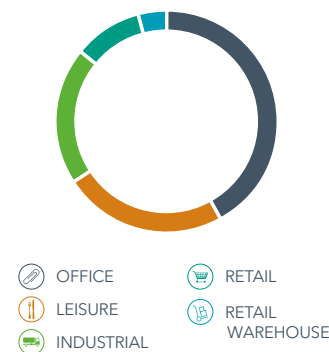
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Diversified Investment Strategy Outside London

The portfolio is diversified by location, sector and tenants.

We believe the regional economic and business fundamentals provide an attractive risk-return basis for property investment. The yield differential between London and the Regions remains above average, with limited development taking place creating upward pressure on rents in growth locations.

Diverse Sectors



View our Market Overview
on page 8 to 9

04

Active Asset Management

We know every asset and meet our tenants so our detailed understanding of each property and its immediate location provide us with the information to identify, create and exploit opportunities to add value.

We have a business plan for each asset that is focused on enhancing income and reducing void costs. Capital investment, refurbishments and change of use are undertaken in order to generate sustainable income and capital growth.

"The conversion of the vacant office space to residential & subsequent letting to Dartford Borough Council created a long term investment from a liability."

Richard Starr



View our Dartford case study
on page 38

05

Experienced Management Team

The Palace Capital management team has a wealth of experience within the property industry. It is our extensive network of contacts that makes us uniquely positioned to source off-market transactions, manage investment properties effectively and deliver capital development programmes.

"In the past year we have spent £4.6m on capital and development programmes across the portfolio providing excellent refurbished space for businesses and tenants across the country."

Stephen Silvester



View our Board of Directors
on pages 28 to 29

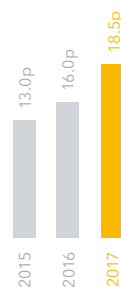
06

Income and Growth

We have established a core portfolio of sustainable income producing assets which has enabled us to reward investors with a progressive dividend. Furthermore, we also have the flexibility to re-invest surplus cash to refurbish, reposition and recycle property to grow the underlying capital values of the existing portfolio.

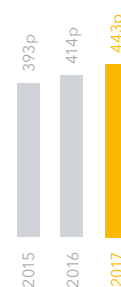
Dividend

18.5p
+16%



NAV per share

443p
+7%



View our Financial Review
on pages 18 to 21

**PROPERTY FOCUS****KILN FARM, 2-4 PITFIELD,
MILTON KEYNES**

Units 3 and 4 were refurbished to a Grade A specification in 2014. They are let to Rockwell Automation on a lease expiring 25 December 2026, at a rent of £10.50 per sq ft (£398,916 per annum). Importantly, both leases contain 4 yearly upwards only rent reviews, with the next review date being 25 December 2018.

Solaris House - Unit 2 (14,500 sq ft) was occupied by Northgate Public Services until March 2016. Refurbishing the vacant unit to the same 'Rockwell specification' and establishing a direct comparable sets the rent review tone. Achieving a letting on Unit 2 at a higher rent is key to generating the greatest valuation returns.

We secured a dilapidations settlement on 16th August 2016 and the building refurbishment completed on 5th December 2016, at a net cost of £845,000. It is being marketed as high quality cost-effective space, at a quoting rent of £16.50 per sq ft.

There is relatively limited Grade A office accommodation available in Milton Keynes. Comparable Grade A rents elsewhere in Central Milton Keynes range from £20.00-£23.50 per sq ft.

Acquired | October 2013

ANNUAL INCOME

£0.4^m

TOTAL SPACE

53,000 sq ft



More info **on page 16**



07

STRATEGIC REPORT

Strategic report →



OVERVIEW

STRATEGIC REPORT

GOVERNANCE

FINANCIAL STATEMENTS

COMPANY INFORMATION

08 Market Overview

STRATEGIC REPORT

Regional economic and business fundamentals provide an attractive context for commercial property investment.

The Palace Portfolio is uniquely positioned in many of the major towns and cities in the UK outside London, which are less sensitive to the political uncertainties around the impact of Brexit as they are less dependent on the financial sector based predominantly in London.

Regional focus

CHARACTERISTICS OF THE REGIONAL COMMERCIAL REAL ESTATE MARKET

- Supply-demand imbalance
- Less volatile
- Less exposed to several macro factors
- Less competition for assets
- Regional economic growth

FAVOURABLE ECONOMIC BACKDROP

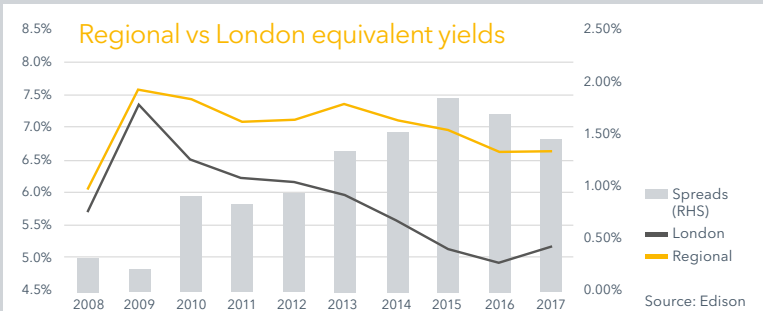
The property market is cyclical, with occupier demand influenced by economic growth. UK economic growth since the financial crisis in 2008 has exceeded the expectations of many commentators, particularly since the EU referendum in June 2016. Employment is close to its highest level since records began. In November 2016, the Bank of England raised its GDP growth forecast for 2017 from 0.8% to 1.4%. Both the Bank of England and the Office for Budget Responsibility forecast growth every year to 2021. Interest rates remain at historically low levels.

Supply of new developments has been inhibited by economic and political uncertainty, and has not yet recovered to pre-2008 levels.

ATTRACTIVE CHARACTERISTICS OF THE REGIONAL COMMERCIAL REAL ESTATE MARKET

The regional commercial property market has all the ingredients to continue providing rental growth across the major cities, even though uncertainty persists over Brexit:

- There is a supply-demand imbalance for regional commercial property, leading to higher income returns on investment and potentially greater scope for capital growth. Regional cities continue to attract occupiers moving from London, particularly the back office divisions of large organisations. Combined with limited new supply and the broad UK economic recovery, tenant demand has been rising and driving up rents for regional offices and industrial sites.
- Regional yield movements tend to lag the London market and to be **less volatile**.
- The yield differential between the regions and London remain above average, continuing capital inflows to the regions.



• The regional market is **less exposed to several macro factors**:

- Business rate changes
Business rate changes which took effect in April 2017, are likely to raise costs significantly for tenants in parts of London and South-East England. In contrast, other areas are likely to see business rates remain flat or decline.

- Brexit
The UK's regional commercial real estate market is less sensitive to the direct effects of Brexit, being less dependent than London on international financial services, tourism and international investment.

- There is **less competition** for certain assets:
 - Individual assets, especially in secondary locations, typically attract less attention from institutions and international investors, meaning that there is less competition for assets that require intensive asset management.

- In the long-term, devolution of powers to city mayors and investment in national infrastructure projects such as HS2 are likely to support **regional economic growth**.
 - Regional vs London equivalent yields (see above)

- The December 2016 manufacturing PMI measure reported by Markit/CIPS was at its highest level for over two years and constant reports of lack of sufficient industrial space, indicates that industrial space (which is mainly regional), will remain buoyant.

PROPERTY FOCUS

HARNHAM BUSINESS PARK
| SALISBURY

ACQUIRED | **Aug 2014**

ANNUAL INCOME TOTAL SPACE

£0.2^m **29,000^{sq} ft**

10 Business Model & Strategy

STRATEGIC REPORT

Our uniquely positioned portfolio and innovative approach to asset management enables us to deliver growing and sustainable income and capital returns to our shareholders.

BUSINESS MODEL

INPUTS

Palace Capital Management Expertise Supported by Long-term Capital Partners

- Shareholder Equity
- Debt Finance conservatively geared

WHAT WE DO

Diversified Portfolio

We have established a regional commercial real estate portfolio of sustainable income producing assets outside London.



ASSETS UNDER MANAGEMENT BY SECTOR

HOW WE CREATE VALUE: Our Strategy

STRATEGY

2016/17 PROGRESS



Opportunistic Acquisitions

We are opportunistic in our approach to stock selection

- £10.6m Boulton House, Central Manchester, Aug 2016
- Valuation uplift to £12.1m incorporating the £0.7m refurbishment programme completed during the year



Active Asset Management

We enhance income returns and reduce vacant costs through active asset management

- Portfolio is generating £12.7m per annum, passing rent at March 2017
- Like for like property valuations are up 4.5% as a result of our active approach to asset management
- Occupancy up to 91% (2016: 89%)



Recycle Capital

We identify non-core assets for capital recycling into new opportunities

- Sales of our vacant property in Stockport and Stoke have a double impact of realising cash profits to reinvest as well as eliminating the holding costs, particularly empty rates
- 13 property sales during the year generated £3.2m profits



Strategic Capex and Development

We aim to outperform the market through our focus on income and capital growth

Refurbishment programs carried out across the portfolio;

- Bank House, Leeds: 17,000 sq ft
- Boulton House, Manchester: 18,500 sq ft on 3 floors.
- Solaris House, Milton Keynes: 14,500 sq ft in a self contained building
- Copperfields, Dartford: 10,000 sq ft

Reinvestment

2017/18 FOCUS

TARGETS

- Regional office building under offer for £20m
- Pipeline of potential acquisitions being monitored

PROGRESSIVE DIVIDEND POLICY

- Let recently refurbished vacant space
- Improve occupancy to drive income growth

INCREASE VALUE OF PROPERTY PORTFOLIO

- Dispose of smaller assets where opportunity exists to sell at above book value
- Increase average lot sizes

INCREASE GROSS PROPERTY INCOME

- Progress development opportunities across the portfolio

OUT-PERFORM SECTOR ON NAV PER SHARE BASIS

OUTCOMES

Income & capital growth

- Progressive dividend policy

18.5p
+16%

DIVIDEND PER SHARE



- Maximise shareholder value

443p
+7%

EPRA NAV PER SHARE



Reinvestment

12 Chief Executive's Review

STRATEGIC REPORT

"We are delighted to report the Company's results for the year ended 31 March 2017 which show an IFRS profit before tax of £12.6m and a net asset value of £109.6m."



Neil Sinclair FRICS
Chief Executive

Our strategy continues to focus on growing both income and capital returns for our shareholders. The year to March has been extremely successful on both fronts. Reflecting this success, the Board proposes a final dividend of 9.5p which, if approved, takes total dividends for the year to 18.5p, more than 1.2x covered by recurring earnings.

EPRA Net Asset Value (NAV) per share increased by 7% from 414p as at 31 March 2016 to 443p as at 31 March 2017. We made our first significant acquisition, which was the Signal portfolio, in October 2013 when our reported NAV was 218p. More than doubling this key indicator in just 41 months supports our view that a regional focus, active portfolio management and an innovative acquisition strategy will create value.

Following further acquisitions, the carrying value of the Company's portfolio is now at £183.2m compared to £173.4m twelve months prior. This takes into account the acquisition of Boulton House, Manchester in August 2016 and a number of disposals made during the year at or above book value.

Our contracted rent roll is now £12.7m per annum with a net income of £11.0m per annum, allowing for head rents, service charge shortfall and empty rates.

The contracted rent roll has been reduced by the number of successful disposals. However, as our trading and portfolio update on 2 May 2017 highlighted, we have agreed a corporate acquisition for £20.0m which, if concluded, will more than compensate for any loss of income.

One of our significant assets at Hudson House, York, a 103,000 sq ft office building on a two acre site close to York Station is now predominantly empty pending redevelopment. This has increased the empty rates and service charge shortfall issue in the short term.

We remain conservatively geared, by design. Our bank borrowings are at £78.7m, net of cash, representing a net loan to value (LTV) of 37% (31 March 2016: £72.7m and 37% respectively).

In our initial Admission Document in October 2013 we stated that we would adopt a progressive dividend policy and pay 12p for the year ended 31 March 2015. In the current year, we paid an interim dividend of 9p per share on 30 December 2016 and we now intend to pay a final dividend of 9.5p per share on 28 July 2017 to those shareholders on the register as at 7 July 2017, making a total dividend for the year of 18.5p.

We are making excellent progress, notwithstanding difficult market conditions. We are cautious but very opportunistic and last June took advantage of market conditions

to acquire a 75,300 sq ft office building within a few minutes walk of Manchester Piccadilly Station. We had been trying to buy in the centre of Manchester for nearly three years which wasn't without its challenges. The announcement of the EU Referendum resulted in most property investors withdrawing from the market pending the result. This allowed us to buy Boulton House at what we consider to be a very satisfactory price.

Boulton House was the only acquisition made during our last financial year. We considered a number of opportunities but they were either not of sufficient quality or we could not achieve the desired return.

My colleagues and I continue to travel the country meeting owners, agents, lawyers and accountants in order to source off market acquisitions. At the same time we take the opportunity to meet Regional Wealth Managers & Brokers as well as private investors.

Government policy is to encourage investment in the Regions. Our focus is to invest not just in the right cities and towns but in the right places in the right cities and towns. This has had the desired effect of growing the NAV well ahead of our peer group. We will not deviate from our strict buying policy criteria as we continue to source acquisitions which will provide us with the desired return.

PROFIT BEFORE TAX
£12.6m
+7%

EPRA NAV PER SHARE
443p
+7%

An update on our portfolio is contained in our Property Review. We consider our current portfolio to have a number of assets with exceptional potential in the short to medium-term. Part of our planning application for Hudson House, York includes 127 apartments and the sales market in the York/Harrogate area is particularly buoyant as buyers move from the outskirts to the town centres.

We have refurbished vacant space in Manchester, Leeds and Milton Keynes. There is interest from potential tenants and once let, this will have a material effect on values. I stated last year that public transport and in particular access to railway hubs will play an increasing part for an office development/refurbishment to be successful. This bodes very well for our properties in Manchester, Leeds, Milton Keynes, York, Sutton, Leamington Spa, Brighton and Staines. Although not imminent, the HS2 will cut the journey time from York to London to 80 minutes and from Manchester to London to 95 minutes.

At the moment, buying opportunities are somewhat limited but we continue to focus on properties that require our brand of active management. Our aspiration remains to join the Official List of the London Stock Exchange so we continue to look at portfolios of a particular size that fit our criteria and where we can achieve the desired return.

We are grateful for the support of our shareholders and I know that we have the management team to grow the Company significantly.

We believe we are one of the most exciting companies in the sector, continuing to outperform most of our peers and we are proud to have been recognised recently by the London Stock Exchange's '1000 Companies to Inspire Britain' as one of the top 25 property growth companies.

The Strategic Report has been approved by the Board and signed on its behalf by

Neil Sinclair
Chief Executive



14 Property Review

STRATEGIC REPORT

"We regularly undertake active management initiatives on all our properties to maximise returns. Regular inspections of our properties and engaging with tenants enables us to adapt to economic changes, as well as to what is required on the ground."



Richard Starr MRICS
Executive Director –
Head of Property

TENANTS
165

During the year we have been able to buy in Manchester in an improving location close to Manchester Piccadilly station.

The purchase provides us with the opportunity to grow the modest rental value whilst also being a medium-term development/refurbishment opportunity. The general investment market during 2016 and especially since the turn of the year has been starved of stock so we have taken this opportunity to sell assets which we believed offered little opportunity for growth or were vacant. These sales created a profit above book values of £3.2m.

We now have a property portfolio independently valued at £183.2m which we consider still has considerable opportunity for growth in capital value.

STATISTICS

- 44 (2016: 54) properties comprising 1.6m sq ft (2016: 1.8m sq ft)
- 165 tenants providing a contractual rent roll of £12.7m per annum (2016: £13.5m per annum) as at 31 March 2017
- WAULT of 5.8 years (2016: 6.3 years) – a reflection of our active asset management initiatives to maintain this through the sales and acquisitions

- Diversity of sectors including offices, industrial, leisure and retail, which is complemented by a residential conversion in Dartford, Kent.

ACQUISITIONS

Boulton House, Manchester

As referred to in the Chief Executive's Review, we completed the purchase of Boulton House, Chorlton Street in Manchester for £10.6m in August 2016. The property comprises 75,300 sq ft of multi-let offices with a WAULT of 1.59 years. The net initial yield was 5.5% and equated to a capital value of £145 per sq ft overall. This yield was predicted to rise to 6.9% based on conservative rental values of £12 per sq ft.

Located within close proximity to Manchester Piccadilly Station and the proposed HS2 interchange, this location will improve in the medium-term. We have sought a purchase in Manchester for several years but were priced out by competitors. However, because of the EU Referendum, the opportunity arose for us and we consider the prospects for this building as very encouraging.

Since the purchase, we have refurbished the vacant space as well as the ground floor reception and entrance hall at a cost of £700,000. Terms are being negotiated with potential tenants at rentals ahead of expectations at the time of purchase.

EXISTING HOLDINGS

The Signal portfolio purchase in October 2013 has performed exceptionally well where values have more than doubled since acquisition.

We continue to visit all the properties and meet our tenants regularly. This gives us immediate knowledge of occupational requirements so that we can ensure maximum occupation where possible and adapt our asset management plan accordingly.

Hudson House, York

The property comprises a 1960's office building of 103,000 sq ft opposite York Railway Station and within the city wall. Transport links are excellent with a direct service to London in under two hours.

We have been granted planning permission to convert the property to a residential and commercial use. In September 2014, an application was made to convert the property into 82 residential units as well as create 37,000 sq ft of grade A office space.

This consent was approved in April 2016, subject to a section 106 agreement. Previously consent had been granted to convert the building into 139 residential units through Permitted Development Rights in February 2016.

NO. OF PROPERTIES

44

WAULT

5.8 years

Obtaining planning consent for the best scheme is not straightforward. After consulting with our technical team, we began the process of seeking consent for a new building, similar to the previous consent granted. In March 2017, we submitted plans for 127 residential apartments, 34,000 sq ft of offices and 5,000 sq ft of ground floor commercial. Discussions continue with City of York Council on this exciting opportunity.

Broad Street Plaza, Halifax

This significant leisure scheme was acquired in March 2016 for £24.18m, providing a net initial yield of 7.25%. Significantly, 40% of the leases benefit from minimum uplifts which will increase this yield to more than 8% by August 2017. The scheme provides an excellent WAULT of 13 years to break. Whilst the scheme is trading well, we continue to work on increasing footfall, ensuring the scheme reaches its full potential through implementing various marketing initiatives as well as new branding.

Copperfields, Dartford, Kent

In 2013 the Government introduced Legislation known as Permitted Development Rights (PDR) which grants permission, in certain circumstances, to allow the conversion of office space to residential use.

This mixed-use retail and office property in a South East commuter town is situated directly opposite the Priory Shopping Centre and within walking distance of the railway station. The offices became vacant and due to a lack of demand we sought consent for the conversion of the offices to 13 residential units. We went ahead with the conversion which completed within budget in September 2016. During the works, we were negotiating directly with Dartford Borough Council about an overriding lease for all the flats. A 10 year term was concluded with

the benefit of annual increases based on 2.5%. These works have transformed a tertiary shopping scheme into a vibrant mixed use investment.

Point Four Industrial Estate, Avonmouth

Over the year we managed two lease renewals and two rent reviews during which we negotiated to remove forthcoming break clauses. One unit remains vacant and is undergoing a refurbishment. Significantly, rental values in this estate have risen by 10% over the year.



16 Property Review continued

STRATEGIC REPORT

"The refurbishment of the vacant office space at The Copperfields, Dartford, is testament to our ability to obtain a change of use to residential, complete a £2.1m project and subsequently let 13 flats to Dartford Borough Council."

SALES

Thirteen properties were sold during the financial year, totalling £12.6m, compared to an aggregated book value of £9.2m. The decision to sell was based on our consideration that further added value would be difficult to achieve and that our efforts were better directed to other holdings.

These other holdings include:

Allen House, Stockport	Victoria Road, Stoke On Trent
Argent Court, Tolworth	3 buildings in the Hockenhull Portfolio
Warwick House, Leeds	ICS, 4 and 5 Hall Road, Maldon
Land and roads in West Molesey	Unit C, Meadowcourt, Sheffield

Bank House, Leeds

Purchased in April 2015 and recently valued at £10.68m (2016: £10m), this Grade II listed city centre office property was built in 1970 and comprises 88,000 sq ft around a large central atrium. The property is home to The Bank of England, who have occupied it since it was built, as well as Walker Morris who are the largest independent firm of solicitors in Leeds.

Since the purchase, we have extended the Bank of England lease until July 2023 with a minimum increase in the annual rent from the passing level of £117,300 per annum to £232,000 per annum at the March 2020 rent review. This will reflect a modest £7.50 per sq ft overall.

The vacant first floor has been fully refurbished at a cost of £350,000 to provide a single floor plate of approximately 17,000 sq ft which is one of the largest second-hand refurbished office floors available in Leeds city centre. We are seeking to attract occupiers who are looking for a discount to the prime rents being paid of £28 per sq ft.

We are investigating the medium-term redevelopment/refurbishment prospects for this property.

Marsh Barton Trading Estate, Exeter

In our results for the year ending 31 March 2016, we announced that administrators had been appointed to our tenant occupying this building.

We subsequently announced last November that we had secured a letting to a new company that had purchased the assets. We took the decision at that time to instruct architects and planning consultants to draw up plans for the redevelopment of the site, irrespective of the letting. The new tenant has recently gone into administration but fortunately we are very advanced with our plans and we hope to be in a position to submit a planning application for a new building of circa 100,000 sq ft by September 2017.

Kiln Farm, 2-4 Pitfield, Milton Keynes

The tenant at unit 2 exercised its option to terminate the lease in March 2016. We negotiated a dilapidation settlement and then undertook a refurbishment to the same specification as the adjacent units we own. We are seeking to let this 14,500 sq ft unit at a significantly higher rental tone than was achieved next door, thereby creating the evidence to support an uplift in December 2018.

Sol Central, Northampton

In May 2015, we acquired the holding company which owned a prominent city centre leisure scheme, Sol Central, in Northampton for £20.7m, reflecting a net initial yield of 8.86%. Comprising a 10 screen cinema, casino, 151 room hotel, gym and 375 space car park, this 200,000 sq ft development has not been trading at its optimum level for a number of years and significantly, the scheme lacks restaurants.

Our specialist leisure architect has designed a scheme to transform this dominant and iconic city centre building, offering to take advantage of the number of Council led initiatives for Northampton city centre. The space formerly occupied by Gala Casino who vacated in 2011 has been stripped out ready for occupation following a surrender premium of £3.2m in 2016.

The occupational market has been slow during the financial year and before we commit the funds required for a full transformation, we will require a significant new pre-let.

In the short-term, repairs to the external lighting and roof are required and a contract is being placed shortly.

249 Midsummer Boulevard, Milton Keynes

Purchased in February 2016 for £7.2m, reflecting a net initial yield of 7.25%, the property comprises multi let offices of 50,000 sq ft with the tenants including DHL & Crawford's. The average rental equates to £12 per sq ft. When the 2nd floor lease expires in June 2017 and the tenant vacates, we will upgrade this space as well as the common parts and reception area, estimated to cost £450,000.

Milton Keynes is one of the fastest growing towns in the UK and directly opposite our holding the Council is proposing to develop a mixed use 20 storey tower.

SECTORS



Milton Keynes continues to see steady rental growth beyond £20 per sq ft. Our ownership is situated on a large site and has the potential for significant development in the medium-term.

Maldon

This property was bought in October 2013 and formed part of the Signal portfolio acquisition. With a lease expiring within three and a half years, we investigated the potential for an alternative use in case the tenant vacated. After consultation with the local authority, it became apparent that the local plan would resist a loss of employment use. We therefore negotiated with the tenant, who wanted maximum flexibility, for a 10 year lease extension, incorporating minimum increases in rent and mutual break options. Subsequently marketed & sold for £3.9m.

MINIMUM ENERGY EFFICIENCY STANDARDS (MEES)

As of April 2018, it will be unlawful for commercial and residential landlords of properties with an Energy Performance Certificate (EPC) rating of less than "E" to grant new leases or renew tenant leases (except for some exemptions). Landlords will need to carry out works to improve the energy performance of their buildings to achieve the minimum standards or face civil penalties.

We have undertaken a full review of our portfolio and are delighted to say that only a few minor works are required at this stage to comply with the proposed new guidelines. We have a specialist consultant advising us to ensure that none of our holdings are affected.

Rating Revaluation

In April 2017, the Chancellor of the Exchequer brought in new rates assessments based on values as at April 2015, which had a significant impact on London real estate. In contrast, across our regional portfolio, rates have been reduced on aggregate, ensuring continuing affordability for our tenants.

THE FUTURE

We remain committed to our brand of active asset management and we are confident that there are still many opportunities for us to continue to grow the income, supporting our progressive dividend policy and grow capital values through our refurbishment plans.

Richard Starr MRICS
Executive Director



18 Financial Review

STRATEGIC REPORT

"The Company has had an outstanding year, generating income and capital profits that have resulted in sector-leading returns."



Stephen Silvester ACA, BSC
Finance Director

EPRA NAV PER SHARE

443p
+7%

FINANCIAL HIGHLIGHTS

	+ / –	2017	2016
CAPITAL GROWTH			
Accounting return	▲	11.4%	8.1%
Total shareholder return	▲	7.4%	-2.3%
Net Asset Value	▲	£109.6m	£106.8m
Basic NAV per share	▲	436p	414p
EPRA NAV per share	▲	443p	414p
INCOME GROWTH			
IFRS profit before tax	▲	£12.6m	£11.8m
Adjusted profit before tax	▲	£6.7m	£5.6m
EPRA earnings (excluding one-off surrender premiums)	▲	£5.4m	£4.5m
Basic EPS	▼	36.6p	43.9p
EPRA EPS	▼	21.2p	31.3p
Adjusted EPS	▲	22.2p	18.9p
Dividend per share	▲	18.5p	16.0p
DEBT FINANCE			
Debt balance	▲	£77.8m	£71.9m
Average cost of debt	▼	2.9%	3.1%
Average debt maturity	▲	4.6 yrs	3.9 yrs
Net Loan to Value Ratio	◀▶	37%	37%
NAV gearing	◀▶	61%	61%

KEY PERFORMANCE MEASURES

The Group financial statements are prepared under IFRS which incorporates non-realised fair value measures and non-recurring items. Alternative Performance Measures ('APMs'), being financial measures which are not specified under IFRS are also used by Management to assess the Group's performance included in the Highlights for the year and throughout this document. These include a number of European Public Real Estate Association ('EPRA') measures, prepared in accordance with the EPRA Best Practice Recommendations (BPR) reporting framework. We report a number of these measures (detailed in the glossary of terms) because management considers them to improve the transparency and relevance of our published results as well as the comparability with other listed European real estate companies.

OVERVIEW AND HEADLINE RESULTS

This review summarises the financial performance for the year and provides a number of key metrics illustrating that the Company continues to deliver on its objective to drive income and capital growth and generate attractive, sector-leading returns for our investors.

This year we delivered an IFRS profit before tax of £12.6m, which reflects a basic earning per share of 36.6p.

ACCOUNTING RETURN

11.4%
+41%

DIVIDEND PER SHARE

18.5p
+16%

EPRA earnings is the industry measure of underlying profit stripping out revaluation gains, profits on disposals and one-off costs. EPRA earnings for the year ended 31 March 2017 increased by 20% to £5.4m compared to £4.5m last year (excluding a significant £3.2m one-off surrender premium in 2016).

Management also report an adjusted profit before tax in order to track recurring earnings and to form a basis for the progressive dividend. This totalled £6.7m for the year ended 31 March 2017 (2016: £5.6m), up 20%, and as a result adjusted earnings per share improved to 22.2p from 18.9p. The Board has proposed a final dividend of 9.5p which ensures a dividend of 18.5p on aggregate across the year up 16%, covered by adjusted earnings 1.2x.

On the capital side net asset value has grown to £109.6m up 3% from the previous year-end of £106.8m and this translates into EPRA net asset value per share of 443p, up 7% from 414p. This 29p increase, together with the total dividends of 18p paid during the year, represents an 11.4% total accounting return.

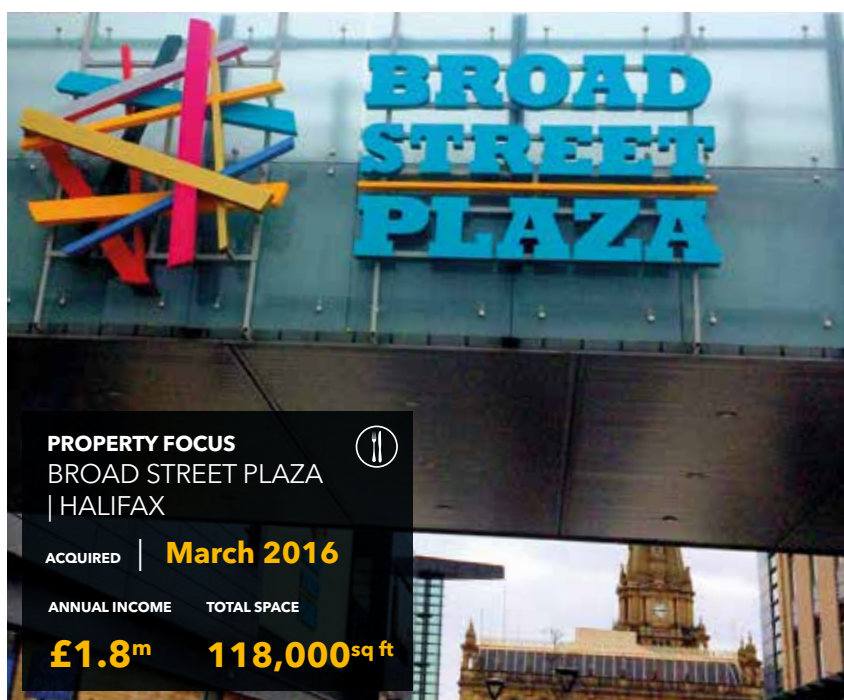
RECURRING EARNINGS

Rental income totalled £14.3m in the year ended 31 March 2017 (2016: £11.4m excluding one-off surrender premiums) driven by the improving portfolio, with fully annualised income

from the acquisitions in the prior year and also benefiting from the acquisition of the office building Boulton House, Central Manchester in August 2016. Net rental income similarly was up to £12.2m (2016: £9.8m, adjusted to exclude surrender premium) and this included £1.0m of non-recoverable costs in the current year from properties held for development which should reduce as projects progress.

Administrative expenses increased to £2.9m (2016: £2.0m) largely as a result of increasing resources and building a

team capable of delivering results on a far larger scale. The team, including the Board, totalled eleven at the balance sheet date up from nine the prior year. Finance costs increased to £3.0m from £2.3m as a result of the rise in debt finance and £0.2m termination costs as a result of refinancing during the year. Despite increasing the base costs of the business, adjusted profit before tax grew 20% to £6.7m from £5.6m reflecting the increasing profitability of the business as a result of both scale and reliable stock selection.



20 Financial Review continued

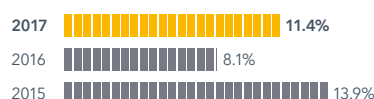
STRATEGIC REPORT

"The Company is very well placed to provide our shareholders with an increased dividend yield due to the growth in the portfolio and the core assets producing stable, long-term income."

ADJUSTED PROFIT BEFORE TAX £M



TOTAL ACCOUNTING RETURN %



DIVIDEND PER SHARE PENCE



Looking forward, the business is now capable of scalability, with the team and systems in place to support significant growth in the portfolio. The Company recently announced the planned redeployment of capital from recent disposals into a £20.0m corporate acquisition which will more than replace the lost income from those disposals and continue the process of improving the assets and reliability of income across the portfolio. The Group has a gross rent roll of £12.7m per annum and this is set to increase further once the acquisition completes later in the year.

VALUATION GAINS & PROFITS ON DISPOSAL

The movement in the values of our investment properties can make a significant impact on profit before tax, and is determined by independent valuers' assessment of what a willing purchaser would pay for the property on the basis of an arms' length transaction. During the financial year the UK property market was impacted by the result of the Brexit Vote on 23 June 2016 and valuers had to consider property values in light of the Referendum. Consequently, there was significant downward pressure on property values. Despite the recent headwinds we have been extremely pleased with how our properties have performed as a result of our regional strategy. This year £3.1m of gains were achieved, with property values on a like for like basis up 4.5%.

In addition, we have continued to recycle capital out of smaller, time-consuming properties with little growth prospects into properties core to the business strategy. Thirteen properties were sold in the year for a total consideration of £12.6m, all at or above book value, resulting in profits on disposal of £3.2m. The combination of revaluation gains and profits on disposal have a significant impact on the underlying value of the business, reflecting 22p uplift in net asset value per share. One of the key advantages of the Company's relatively small size compared to its peer group is its ability to 'shift the dial' and grow the underlying value of the business on a per share basis.

The combination of careful stock selection, buying at the right price and the impact of our asset management and capex initiatives, particularly at our strategic properties such as Hudson House, York, where we currently have a planning application lodged with the Council to redevelop the property, are having a significant income and capital impact on the business. We continue to recycle capital through disposals of individual units and small properties where we can realise profit that reflects good value from our investment and reinvest funds into growth opportunities.

EPS

Basic earnings per share (EPS) was 36.6p compared to 43.9p last year. Similar to the adjustments we make to profit before tax, which remove unrealised capital profits and one-off items such as profits on disposal and costs on acquisition, we report EPRA earnings per share. This reduced to 21.2p from 31.3p last year, however, stripping out the significant one-off impact of the Gala surrender premium, last year's EPRA EPS would have been 18.3p. Finally, we also report an adjusted earnings per share to provide a basis for dividend cover and this was 22.2p for the year up from 18.9p.

DIVIDENDS

The Board is recommending a final dividend of 9.5p per share to be paid on 28 July 2017 to shareholders registered at the close of business on 7 July 2017. Taken with the interim dividend of 9.0p, our full year dividend will be up 16% to 18.5p. The Company is very well placed to provide our shareholders with an increased dividend payment due to the growth in the portfolio and the core assets producing sustainable, long-term income. However, we continue to reinvest surplus funds into our strategic assets to provide investors with a two-pronged return through both income and capital growth.

AVERAGE COST OF DEBT

2.9%

LTV

37%

NET ASSETS

At 31 March 2017, our net assets were £109.6m, equating to basic net asset per share of 436p an increase of 22p since 31 March 2016. The increase in our net assets was driven largely by the increase in value of our investment properties, profits on disposal of investment properties and surplus profits after dividends paid. We calculate an EPRA NAV consistent with standard practice in the property industry to adjust for any dilution of outstanding share options and fair value adjustments of financial instruments and deferred tax which we believe better reflects the underlying net assets attributable to shareholders. Our EPRA NAV was 443p at 31 March 2017, up from 414p at 31 March 2016.

DEBT FINANCING

During the year our debt profile improved as we refinanced one facility and repaid two others. In June 2016, we refinanced the £15.2m Barclays facility which we inherited as part of the acquisition of Broad Street Plaza, Halifax with a 10-year fixed rate loan through Scottish Widows. We were able to lock in at an all-time low swap rate as a result of the Brexit Vote impacting swap markets and consequently we have secured a cost of debt of 2.9% for the term of the loan.

We extended the Santander facility during the year in order to part-fund the Boulton House, Manchester acquisition

and prior to year-end we also repaid the £1.2m Close Brothers facility as a result of a number of small disposals from the Hockenhull portfolio.

The Group debt facilities total £82.3m, with £78.7m drawn at the year-end. Our lenders include the majority of the UK clearing banks at an average margin of 2.35%. We have fixed just over 30% of our debt and continue to take the decision to keep the majority of our debt floating as a result of the historically low interest rates and therefore enjoy an all in average cost of debt of 2.9%, currently one of the lowest in the sector. The average debt maturity is 4.6 years which gives us security over income streams net of interest costs for a number of years before the need to refinance.

NET DEBT AND GEARING

Each debt facility is secured at an SPV level and we assess the gearing mainly through interest cover ratios (ICR) and loan to value ratios (LTV). In normal market conditions we gear our assets within a range of 40–60% LTV. At a group level we measure both the debt to net asset value ratio (NAV gearing) and loan to value net of cash. NAV gearing at 31 March 2017 was 61% and the net LTV ratio was 37% at 31 March 2017 similar to last year. The Group remains conservatively geared and at year-end had £11.2m of cash and £3.6m of unutilised facilities available, along with over £15.0m of properties uncharged.

TAXATION

The Group has a tax charge of £3.2m for the year ended 31 March 2017. This includes a corporation tax charge of £0.7m to reflect the tax payable on taxable profit in the year and deferred tax charge of £2.5m to reflect capital allowances claimed in excess of depreciation and losses utilised in the year. The effective tax rate for the year for tax payable on IFRS profit remains low at 5.4% due largely to utilisation of brought forward losses and capital allowances.

OUTLOOK

From a financial point of view, the Company has had an outstanding year, generating income and capital profits that have enabled us to grow the dividends and improve the EPRA NAV per share. We expect to add to the portfolio shortly on completion of the recently announced potential acquisition. In addition, some of the non-recoverable costs incurred in the short-term on development projects will diminish as we progress these improving income returns. We are well positioned to continue to grow the business on the basis of both income and capital growth, rewarding our shareholders as this improvement emerges.

Stephen Silvester ACA
Finance Director

22 Risk Management

STRATEGIC REPORT

The Board continually assesses the key risks to the business to ensure mitigation is in place to reduce exposure to these risks and provide greater security to investors on the future income and capital return.

RESPONSIBILITIES OF THE RISK COMMITTEE

The Executive Team is responsible for risk management on a day-to-day basis. The current principal risks facing the Company are described in the table below.

Risk rating key

- High
- Medium
- Low

Risk impact key

- H High
- L Low

RISK	MITIGATION	PROGRESS 2016/17	RATING
Development Over exposure to development could put pressure on cash flow and debt finance.	<ul style="list-style-type: none"> Core portfolio generates sustainable cash flows. Conservative gearing used to take advantage of the gap between yield and cost of borrowing. Clear strategy on each property to create and deliver value. All developments require Board approval based on merits of strategy for assets. Developments are modelled and financed appropriately to minimise risk and maximise return. 	Change of use from vacant office space to 13 residential units at The Copperfields, Dartford successfully completed during the year. Lease signed with Dartford Borough Council for all 13 units on a 10 year term. Planning application submitted in March 2017 to redevelop Hudson House, York.	H
Tenant Exposure to tenant administration and poor tenant covenants could result in lower income.	<ul style="list-style-type: none"> Our strategy to invest across different sectors reduces our exposure to an individual sector or tenant. We maintain close relationships with our tenants and support them throughout their business cycle. Management meet with managing agents to review rent collection and arrears on a regular basis. We actively manage our properties to improve security of income and limit exposure to voids. Tenant diversification is high with no tenant making up more than 7% of total rental income. 	Portfolio weighted average lease length is 5.8 years. Occupancy across the portfolio has improved to 91%. (2016: 89%)	L
Financing & Cash flow Breach of debt covenants could trigger loan defaults and repayment of facilities putting pressure on surplus cash resources. Bank of England monetary policy may result in interest rate rises and increased cost of borrowing. Financial regulatory changes under Basel III may increase the cost to borrowers.	<ul style="list-style-type: none"> The Group actively engages in close relationships with its key lenders, ensuring transparency when it comes to monitoring the properties secured by debt. Assets are purchased that generate surplus cash and significant headroom on ICR & LTV Loan Covenants. Gearing is maintained at a conservative level and hedging minimal in the current interest rate market to ensure we benefit from historically low finance costs. 	The Group's average maturity of debt has improved to 4.6 years from 3.9 years. The Group has reduced its average cost of debt to 2.9% from 3.1%. There is plenty of headroom on all debt covenants currently.	H

OCCUPANCY

91%

AVERAGE DEBT MATURITY

4.6yrs

WEIGHTED AVERAGE UNEXPIRED
LEASE LENGTH

5.8yrs

RISK	MITIGATION	PROGRESS 2016/17	RATING
Economical and Political Uncertainty from Brexit and world events could impact our tenants and the profitability of their businesses. Decisions made by Government and Local Councils can have a significant impact on our ability to extract value from our properties.	<ul style="list-style-type: none"> Monitoring of Economic and Property Industry Research by Executive Team and review at Board Meetings. Use of consultants and experts when considering planning and development work. Review tenant profile and sector diversification. Member of various Bodies including British Property Federation (BPF) in order to monitor the impact of all relevant current issues. 	<p>The majority of England outside of London voted for Brexit in June 2016 and the regional economies remain resilient despite the political uncertainty.</p> <p>Government support for regional development initiatives bodes well for the markets in which we operate.</p>	H
Accounting, tax, legal and regulatory Non-compliance as a result of changes to accounting standards, regulatory requirements for a public real estate company and incorrect application of new tax rules.	<ul style="list-style-type: none"> Key advisors including Auditors, Solicitors and Nomad are engaged on key regulatory, accounting and tax issues. Engagement with BPF on regulatory changes that impact the real estate industry. 	<p>FRS102 new accounting standard was applied to Subsidiary Statutory Accounts for the first time with the transition overseen by the Auditors.</p> <p>Business forecasts and strategy allows for changes to corporation tax rates and interest deductibility rules from 1 April 2017.</p>	L
Operational Business disruption. Without adequate systems and controls, our exposure to operational risk and business disruption is increased.	<ul style="list-style-type: none"> Insurance cover for loss of rent up to three years. Tight-knit team with systems in place to ensure Executive Team have shared responsibility across all major decisions. General policy of retaining incumbent managing agents on new property acquisitions to avoid awkward transitions and potential loss of income. Segregation of duties applied to payments processing and bank authorisations. 	<p>Leasing activity processes streamlined across the entire business.</p> <p>Insurance reinstatement valuations being carried out in 2017.</p> <p>EPC assessment carried out on all assets during the year in light of new regulations.</p> <p>Business Strategy Review by Board during the year to ensure plans in place to deal with disruption risks.</p>	L



PROPERTY FOCUS

BOULTON HOUSE | CENTRAL MANCHESTER



Boulton House was bought in August 2016 for £10.6m. It is a 75,000 sq ft grade B office building close to Manchester Piccadilly Station. At acquisition the property generated £0.6m of rent, a yield of 5.5%, rising to £0.8m after rent-free periods come to an end, but with around 25% of the space vacant.

This vacant space and the reception area have been refurbished and the company has been encouraged by interest in the space which, when fully let, would take the rent to £0.9m increasing returns to c. 8.5%. Given the excellent location, management believes there is scope for further rental growth towards £17.25 per sq ft available in Manchester from the current level of £13-15/sq ft.

ACQUIRED | **August 2016**

ANNUAL INCOME

£0.6^m

TOTAL SPACE

75,000^{sq ft}



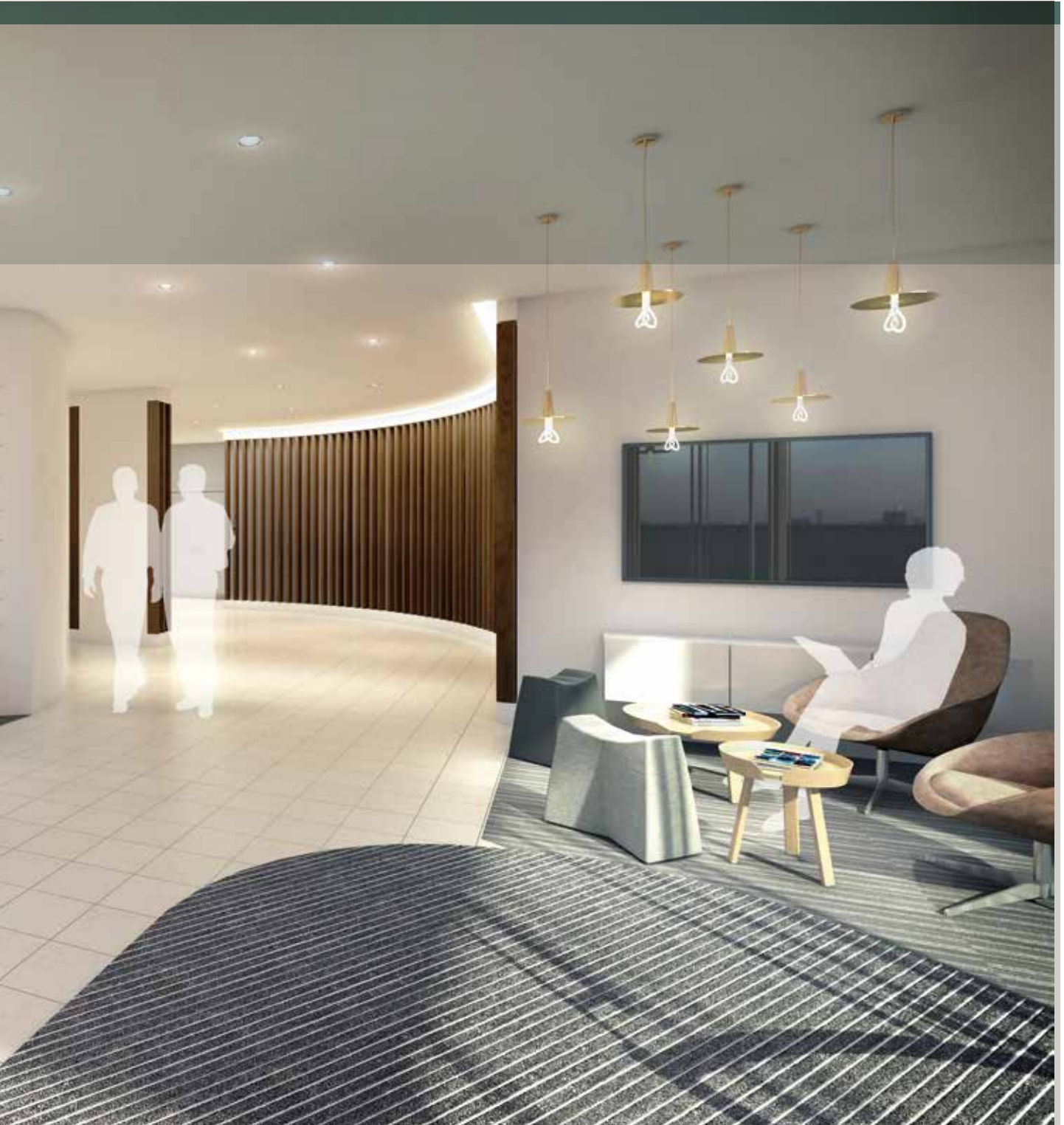
More info **on page 14**



25

GOVERNANCE

Governance →



OVERVIEW

STRATEGIC REPORT

GOVERNANCE

FINANCIAL STATEMENTS

COMPANY INFORMATION

26 Statement of Corporate Governance

GOVERNANCE

"My role as Chairman is to oversee the Board and ensure we succeed as we implement our business strategy through our commitment to excellence in corporate governance."



Stanley Davis
Non-Executive Chairman

There is a commitment to high standards of corporate governance throughout the Group. The Board is accountable to the Group's shareholders for good governance. As an AIM listed company we are not required to comply with the Corporate Governance Code however this report, together with the Directors' Remuneration Report on pages 33 to 36 explains how the Directors seek to apply good corporate governance to procedures within the Group.

DIRECTORS

During the year, the Board consisted of a Non-Executive Chairman, Chief Executive, Group Finance Director, Executive Director – Head of Property and two further Non-Executive Directors. The Chairman, Stanley Davis, has a significant shareholding detailed in the Directors' Report starting on page 30.

The Board has reviewed the roles of Anthony Dove and Kim Taylor-Smith and concluded that each is independent in character and free from any relationship that could affect exercise of their independent judgement. It is felt that their knowledge and understanding are fundamental to the Board's deliberations.

Anthony Dove is the Senior Independent Director.

No individual or group of individuals dominates the Board's decision-making.

The Non-Executive Directors' interests in the shares of the Company are set out on page 31 and they receive a fixed fee for their services.

Profiles of the Board members appear on pages 28 to 29 of this report. These indicate the high level and range of business experience which enables the Group to be managed effectively.

The Board meets at least nine times a year and more frequently where business needs require. The Board has a schedule of matters reserved for its decision which includes material capital commitments, business acquisitions and disposals and Board appointments. Directors are given appropriate information for each Board meeting, including reports on the current financial and trading position.

Any Director appointed is required to retire and seek election by shareholders at the next Annual General Meeting following their appointment. Additionally, one-third of the Directors retire by rotation each year and seek re-election at the Annual General Meeting. The Directors required to retire are those in office longest since their previous re-election.

CHAIRMAN AND CHIEF EXECUTIVE

There is a clear division of responsibilities between the roles of the Chairman and of the Chief Executive.

The role of the Chairman is to conduct Board meetings and to ensure that all the Directors are properly briefed in order to take a full and constructive part in Board discussions. They are responsible for evaluating the performance of the Board and of the Executive Management and of the other Non-Executive Directors and has active involvement in all key strategic decisions taken by the Group.

The role of the Chief Executive is to oversee the day-to-day running of the Group's business including the development of business strategies and processes to enable the Group to meet shareholder requirements. The role involves leading the executive team and evaluating the performance of the Executive Management. Together with the Group Finance Director, he is also responsible for dealing with investor and public relations, external communications and corporate.

BOARD EVALUATION

A formal evaluation of the performance and effectiveness of the Board, its Committees and individual Directors was carried out during the year.

BOARD COMMITTEES

The Board has delegated authority to the following committees and there are written terms of reference for each committee outlining its authority and duties.

(i) Audit Committee

The Audit Committee members throughout the year were Kim Taylor-Smith (Chairman), a Chartered Accountant, Stanley Davis and Anthony Dove. Stephen Silvester, the Finance Director additionally attended all meetings. The committee meets when appropriate to consider the Company's accounting policies and in particular with the Company's auditors to review the financial statements.

(ii) Remuneration Committee

Details of the composition of the Remuneration Committee and its activities during the year are given in the Directors' Remuneration Report on page 33.

(iii) Nominations Committee

The Nominations Committee members throughout the year were Stanley Davis (Chairman), Neil Sinclair, Anthony Dove and Kim Taylor-Smith. The committee meets when appropriate to consider appointments to the Board of both Executive and Non-Executive Directors. Where necessary, external search consultants are used to ensure that a wide range of candidates is considered.

INTERNAL CONTROLS

The Board is responsible for the Group's system of internal controls and for reviewing their effectiveness. The internal controls are designed to ensure the reliability of financial information for both internal and external purposes. The Directors are satisfied that the current controls are effective with regard to the size of the Group. Any internal control system can only provide reasonable, but not absolute assurance against material misstatement or loss.

Given the size of the Group, in the opinion of the Board, there is currently no need for an internal audit function.

Stanley Davis
Non-Executive Chairman

28 Board of Directors

GOVERNANCE

Palace Capital has an experienced team of Board members, Directors and managerial staff. The Company focuses on recruiting some of the best individuals from the property and corporate sectors, with specialist interest in new ideas and innovation.



STANLEY DAVIS
Non-Executive Chairman

Stanley is a successful serial entrepreneur who has been involved in the City of London since 1977. His founding company was company registration agents Stanley Davis Company Services Limited which he sold in 1988. In 1990 he became Chief Executive of a small share registration company which became known as IRG plc and acquired a number of businesses including Barclays Bank Registrars and was sold for a substantial sum to The Capita Group plc. He is Chairman of Stanley Davis Group Limited specialising in company formations, property and company searches.



"Palace Capital is without a doubt one of the most exciting businesses I have put my name to in the last 20 years."



NEIL SINCLAIR
Chief Executive

Neil has over 50 years' experience in the property sector. He was a founder of Sinclair Goldsmith Chartered Surveyors which was admitted to the Official List in 1987 and subsequently merged with Conrad Ritblat in 1993, when he became Executive Deputy Chairman. Neil was appointed Non-Executive Chairman of Baker Lorenz, surveyors in 1999, which was sold to Hercules Property Services plc in 2001. He was appointed a Non-Executive Director of Tops Estates plc, a fully listed company, in 2003 and remained so until it was sold to Land Securities plc in 2005.

"We continue to find excellent opportunities to acquire commercial properties in the regions where we can apply our brand of asset management to grow income and build value."



STEPHEN SILVESTER
Finance Director

Stephen Silvester, a Chartered Accountant, joined Palace Capital in 2015 and brings over 10 years' experience as a finance professional, with a background across a range of markets, including real estate. Prior to joining Palace Capital he served for three years as Group Financial Controller at NewRiver REIT plc. He was involved in debt restructuring, numerous property portfolio acquisitions across the UK, capital raising and securing credit facilities from major institutions.



"Scaling up the business and ensuring we deliver on our financial goals is at the very top of my agenda."



Audit Committee member



Nomination Committee member



Remuneration Committee member



RICHARD STARR
Executive Director

Richard has extensive experience of sourcing and managing commercial investments throughout the UK. After qualifying as a Chartered Surveyor in 2000, he developed his experience working as a fundamental team member of four Central London property firms including the corporate real estate division of what is now CBRE Global Investors. In 2011, he established his own boutique property consultancy, successfully negotiating sales and acquisitions on behalf of a wide variety of institutional and private clients before joining the board of Palace Capital in October 2013.

"We maintain regular contact with our tenants and can adapt our asset management initiatives quickly."



ANTHONY DOVE
Non-Executive Director

Anthony has over 30 years experience in the corporate sector. He was a partner at the international law firm Simmons & Simmons from 1977 until 1999. In 1998 he joined the board of Tops Estates plc, a fully listed company, and remained so until 2005 when the company was acquired by Land Securities plc. From 2004 to 2013 as a Managing Director of Locate Continental Properties Kft a private Hungarian company, he undertook a number of property renovations in Budapest for investment purposes and was a trustee of the Gynaecology Cancer Research Fund from 2002 to 2009.



"With my City background and professional view on both corporate law and strategic matters, I believe we can move the business forward with the experience and depth the team has."



KIM TAYLOR-SMITH
Non-Executive Director

Kim, a Chartered Accountant, brings to Palace Capital over 30 years' experience as a company director for a range of businesses, with a particular background in property management, investment and development. He was Finance Director and latterly Chief Executive of Birkby plc, a manager of serviced workspace (IMEX) and indoor markets (Inshops), between 1983 and 1999 and continued as Chief Executive of the enlarged Group after the agreed takeover by Mentmore plc, at that time Europe's leading records management and self storage company where he remained until 2001.



"We focus on UK towns with sustainable tenant demand and a supply and demand imbalance as they offer more attractive returns."

30 Directors' Report

GOVERNANCE

The Directors present their Annual Report and the audited consolidated financial statements of Palace Capital plc for the year ended 31 March 2017.

STRATEGIC REPORT

The principal activity of the Group is property investment, predominately in key regional towns and cities within the UK. A review of the Group's business strategy, operations, future prospects and key performance indicators are included in the Strategic Report.

RESULTS AND DIVIDENDS

The results for the year are set out in the Financial Reports.

The Directors paid an interim dividend of 9p (2016: 7p) per ordinary share on 30 December 2016 and the directors recommend the payment of a final dividend in respect of the year ending 31 March 2017 of 9.5p (2016: 9p) per ordinary share to be paid on 28 July 2017 to the shareholders on the register on 7 July 2017.

POST BALANCE SHEET EVENTS

The Company announced on 2 May 2017 that it had agreed terms to acquire an office building for £20m, subject to contract and is expected to complete in the summer of 2017.

SHARE CAPITAL

The present capital structure of the Company is set out in note 19 to the Company financial statements.

PURCHASE OF OWN SHARES BY THE COMPANY

At the Annual General Meeting of the Company held on 6 July 2016, authority was granted to the Directors to purchase, in the market, the Company's own shares, up to the limit of 10% of the issued share capital. The authority was expressed to run until the conclusion of the next Annual General Meeting of the Company. Purchases of 681,180 shares were made pursuant to this authority during the year. Renewal of this authority will be proposed at the forthcoming Annual General Meeting.

FINANCIAL RISK MANAGEMENT

The Group is exposed to market risk (including interest rate risk and real estate risk), credit risk and liquidity risk. The Group's senior management oversee the management of these risks, and the Board of Directors has overall responsibility for the determination of the Group's risk management objectives and policies and it sets policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility. Further details regarding these policies are set out in note 24.

DIRECTORS

The following Directors have held office during the year.

Stanley Davis
Neil Sinclair
Stephen Silvester
Richard Starr
Anthony Dove
Kim Taylor-Smith

The biographies of Directors serving at 31 March 2017 are set out on pages 28 to 29.

In accordance with the Articles of Association, Mr Kim Taylor-Smith and Mr Richard Starr retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

QUALIFYING THIRD PARTY INDEMNITY PROVISIONS

The Company provides Directors and Officers Liability insurance cover in the sum of £1m in respect of Executive Directors and £250,000 in respect of Non-Executive Directors. The cover currently in place is for the period 6th July 2016 to 5th July 2017. The cover is provided by a consortium of underwriters led by Liberty Mutual Insurance Group Limited.

CONFLICTS OF INTEREST

Under the articles of association of the Company and in accordance with the provisions of the Companies Act 2006, a Director must avoid a situation where he has, or can have, a direct or indirect interest that conflicts, or possibly may conflict with the Company's interests. However, the Directors may authorise conflicts and potential conflicts, as they deem appropriate. As a safeguard, only Directors who have no interest in the matter being considered will be able to take the relevant decision, and the Directors will be able to impose limits or conditions when giving authorisation if they think this is appropriate. During the financial year ended 31 March 2017, the Directors have authorised no such conflicts or potential conflicts.

DIRECTORS' INTERESTS IN SHARES

Directors' interests in the shares of the Company, including family interests, were as follows:

	Ordinary shares of 10p each 31 March 2017	Ordinary shares of 10p each 31 March 2016	Outstanding Ordinary share options of 10p each 31 March 2017	Outstanding Ordinary share options of 10p each 31 March 2016
Stanley Davis	1,565,287	1,565,287	–	8,668
Neil Sinclair	173,767	173,767	379,679	321,106
Stephen Silvester	2,148	2,148	57,205	26,351
Richard Starr	82,258	82,258	180,398	137,676
Anthony Dove	80,000	78,000	–	–
Kim Taylor-Smith	–	–	–	–

Since the year end Mr Neil Sinclair has acquired an interest in a further 10,000 shares.

SUBSTANTIAL SHAREHOLDINGS

As at 31 May 2017, being the latest practicable date before the issue of these financial statements, the Company had been notified of the following shareholdings which constitute 3% or more of the total issued shares of the Company.

	Ordinary 10p shares No.	Shareholding %
Polar Capital European Forager Fund Ltd	2,981,137	11.85
Henderson Global Investors	2,555,000	9.91
Quantum Partners LP	2,553,355	9.90
Miton Group Plc	2,436,765	9.69
Schroders Plc	1,691,723	6.73
Stanley Davis	1,565,287	6.22
Unicorn Asset Management Limited	1,299,240	5.04
AXA Investment Managers SA	1,242,006	4.82
Hargreave Hale Ltd	1,043,870	4.15

CREDITOR PAYMENT POLICY

It is the Company's policy to settle the terms and conditions of payment with suppliers when agreeing each transaction. The Group's average number of creditor days as at 31 March 2017 was 30 (2016: 30 days).

AUDITORS

The auditor, BDO LLP, has indicated their willingness to continue in office and a resolution that they be re-appointed will be proposed at the Annual General Meeting.

This report was approved by the Board and signed on its behalf.

David Kaye
Company Secretary

5 June 2017

32 Statement of Directors' Responsibilities

GOVERNANCE

The Directors are responsible for preparing the Annual Report and the Group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent financial statements for each financial year. Under that law the Directors have elected to prepare the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law).

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of the profit or loss of the group for that period. The Directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market. In preparing each of the Group and parent company financial statements the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements;
- for the parent company financial statements, state whether they have been prepared in accordance with UK GAAP, subject to any material departure disclosed and explained in the parent company financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that the financial statements comply with the requirements of the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

The Directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the company's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Provision of information to auditors

Each of the persons who are Directors at the time when the Directors' Report is approved has confirmed that:

- so far as that Director is aware, there is no relevant audit information of which the Group's auditors are unaware; and
- that Director has taken all the steps that ought to have been taken as a Director in order to be aware of any information needed by the Group's auditors in connection with preparing their report and to establish that the Group's auditors are aware of the information.

On behalf of the Board

David Kaye
Company Secretary

5 June 2017

33 Directors' Remuneration

GOVERNANCE

This report was prepared by the Remuneration Committee (The Committee) and approved by the Board for the financial year to 31 March 2017. Unless otherwise stated, the information within this report is unaudited.

The Remuneration Committee members throughout the year were Anthony Dove (Chairman), Stanley Davis and Kim Taylor-Smith. The Committee meets when necessary to review the remuneration of the Executive Directors. It is also responsible for determining the fees of the Chairman. The Group Finance Director generally attends meetings of the Committee but takes no part in deliberations relating to his own position. The views of the Chief Executive are sought in respect of the other Executive Directors.

The Executive Directors abstain from any discussion or voting at full Board Meetings on Remuneration Committee recommendations where the recommendations have a direct bearing on their own remuneration package.

The Remuneration Committee's overall approach is focused on ensuring the Group's remuneration policy is aligned with shareholders' interests while also enabling the Group to attract, retain and motivate high quality executive management.

In making remuneration decisions, the Committee considers the Group's overall performance against its long-term objectives. For the year to 31 March 2017, the Group has delivered a positive performance as set out in the Strategic Report.

In setting the remuneration policy for the Executive Directors, the Committee takes into account the following:

- The need to attract, retain and motivate Executive Directors and senior management;
- Periodic external comparisons to examine current market trends and practices and equivalent roles in similar companies.

The key elements of the remuneration package for Executive Directors are as follows:

• Base salary

Base salary for each Executive Director is reviewed annually by the Committee, taking account of the Director's performance, experience and responsibilities. The Committee has regard to salary levels paid by UK listed companies of a similar size and nature. This approach ensures that the appropriate benchmark data is used. When determining Executive Directors' base salaries, the Committee also considers wider economic factors and the performance of the Group as a whole.

• Annual bonus

The Committee's general policy is that Executive Directors should receive a bonus in relation to the achievement of stretching performance targets which reflect how well the Group has performed against set criteria in line with the Company Strategy. The Committee wishes to retain the flexibility to set bonus targets which reward outperformance against predetermined performance objectives and which reflect the needs of the business.

• Long-term incentives

The Group operates a Long-Term Incentive Plan (the "Plan"). The purpose of the Plan is to motivate key individuals and to reward them for exceptional performance. Under the Plan each participant is allocated a number of shares. The vesting of shares under the Plan is subject to the achievement of performance targets and typically over a three-year period.

• Pension provision

The Company makes pension contributions into a defined contribution scheme on behalf of Directors and currently match Director contributions up to 5% of basic salary.

• Benefits

The Group operates a policy whereby Executive Directors are provided with health insurance, life assurance and cash alternatives to company cars.

34 Directors' Remuneration continued

GOVERNANCE

SERVICE CONTRACTS

The Committee's policy on service contracts for Executive Directors is that they should provide for termination of employment by giving 12 months' notice.

Name	Contract date	Notice period
Neil Sinclair	8 September 2011	12 months
Stephen Silvester	2 April 2015	12 months
Richard Starr	24 September 2013	12 months

Chairman and Non-Executive Directors

The Non-Executive Directors are engaged for fixed terms. These appointments are subject to the retirement by rotation provisions in the Company's Articles of Association.

The effective dates of the letters of appointment for the current Non-Executive Directors are as follows:

Name	Date of letter for current appointment	Date term due to expire
S Davis	1 July 2016	30 June 2019
A Dove	8 September 2014	7 September 2017
K Taylor-Smith	6 October 2014	5 October 2017

Annual Report on Remuneration

The following sections show how the policy described above was applied in 2016/2017.

Salary

Salaries for Executive Directors at 31 March 2017 were as follows:

• Neil Sinclair	Chief Executive	£247,000
• Stephen Silvester	Group Finance Director	£145,000
• Richard Starr	Executive Director	£185,000

The Chief Executive's salary was increased by £7,000 with effect from 1 January 2017.

The Group Finance Director's salary was increased by £15,000 with effect from 1 January 2017.

The Group Property Director's salary was raised to £180,000 with effect from 4th July 2016 on his becoming a full-time Executive and by a further £5,000 with effect from 1 January 2017.

Non-Executive Directors

The remuneration of the Non-Executive Directors is set by the Executive Directors. The policy of the Board is that the remuneration of the Non-Executive Directors should be consistent with the levels of remuneration paid by companies of a similar size. Non-Executive Directors receive an annual fee. They do not receive any performance related remuneration or pension contributions. Current fee levels are as follows:

Name	Role	Committee Chairman Role	Fee to 31 March 2017
S Davis	Chairman	Nomination	£31,250
A Dove	Senior Independent Director	Remuneration	£26,250
K Taylor-Smith	Non-Executive Director	Audit	£26,250

The fee for Mr Davis was raised by £5,000 to £35,000 on 1st January 2017.

The fees for Mr Dove and Mr Taylor-Smith were raised by £5,000 to £30,000 on 1st January 2017.

Palace Capital No.1 Share Option Scheme

The Executives entitled to participate in this scheme exercised their options on 10th March 2017 and there are no remaining options under this scheme. 31,593 ordinary shares of 10p each were issued at a price of £2.25 and were sold for £3.40. The options held by the Directors are shown in the table below.

	As at 1 April 2016	Exercised	As at 31 March 2017	Share price at date of grant
Neil Sinclair	17,376	17,376	–	£2.25
Stanley Davis	8,688	8,688	–	£2.25

Long-Term Incentive Plans (LTIP 2014, LTIP 2015 and LTIP 2016)

Executives have been able to participate in the Group's LTIP. These schemes are designed to encourage the matching of interests between management and shareholders. Further details are provided in note 20 of the Group financial statements.

A break-down of the Directors' interests in the awards under the Long-Term Incentive Plans is as follows:

	At 1 April 2016	Granted	Vested	Exercised	As at 31 March 2017	Share price at date of award	Grant date	Vesting date
Neil Sinclair	238,866		–	–	238,866	£2.00	24.07.2014	30.06.2017
	64,864		–	–	64,864	£3.70	08.12.2015	08.12.2018
		75,949	–	–	75,949	£3.16	04.07.2016	04.07.2019
			–	–	379,679			
Stephen Silvester	26,351		–	–	26,351	£3.70	08.12.2015	08.12.2018
		30,854	–	–	30,854	£3.16	04.07.2016	04.07.2019
			–	–	57,205			
Richard Starr	119,433		–	–	119,433	£2.00	24.07.2014	30.06.2017
	18,243		–	–	18,243	£3.70	08.12.2015	08.12.2018
		42,722	–	–	42,722	£3.16	04.07.2016	04.07.2019
					180,398			
Totals	467,757	149,525			617,282			

LTIP Performance Criteria

The level of benefit will be dependent on meeting certain defined criteria and with the following allocations:

LTIP 2014

50% based on Total Shareholder Return and 50% based on Earnings per Share.

LTIP 2015

50% based on Total Shareholder Return and 50% based on Net Asset Growth.

LTIP 2016

50% based on Total Shareholder Return and 50% based on Net Asset Growth and comparing this with the Net Asset Value Growth of a group of comparable companies.

The maximum award under the LTIPs is 100% of salary.

36 Directors' Remuneration continued

GOVERNANCE

SERVICE CONTRACTS CONTINUED

Bonus

The Group's remuneration policy for the year ended 31 March 2017 caps bonus payments to the Executive Directors at 100% of salary. In determining the bonuses, the Executive Directors are measured against specific criteria. Bonuses are awarded at levels of 20/60/80/100% of the maximum depending on whether performance achieves threshold, target, stretch and super stretch of the relevant criterion.

The Palace Capital Deferred Bonus Plan provides that 35% of any bonuses awarded may be deferred for a year and shares to the value of the deferred bonus amount allocated. The Executives will have a further year from the vesting date to exercise their options. In respect of the year ended 31 March 2017, 35% has been deferred in accordance with the terms of the Plan.

Summary of Directors' Total Remuneration (audited)

Executive Directors	Salary 2017	Bonus 2017 Cash	Bonus 2017 shares	Pension 2017	Taxable benefits 2017	Total 2017
Neil Sinclair	£241,750	£101,676	£54,749	–	£14,800	£412,975
Stephen Silvester	£120,375	£59,689	£32,140	£21,908	£8,360	£242,472
Richard Starr	£151,938	£76,154	£41,006	£14,565	£6,110	£289,773
TOTAL	£514,063	£237,519	£127,895	£36,473	£29,270	£945,220

Executive Directors	Salary 2016	Bonus 2016	Pension 2016	Taxable benefits 2016	Total 2016
Neil Sinclair	£230,000	£54,000	–	£14,800	£298,800
Stephen Silvester	£84,000	£32,500	£12,788	£7,916	£137,204
Richard Starr	£86,667	£20,250	–	–	£106,917
TOTAL	£400,667	£106,750	£12,788	£22,716	£542,921

Mr Silvester and Mr Starr participate in a salary sacrifice scheme reducing their salaries and increasing their pensions.

Non-Executive Directors	Fees 2017	Fees 2016
S Davis	£31,250	£30,000
A Dove	£26,250	£25,000
K Taylor-Smith	£26,250	£25,000

37 Independent Auditor's Report to the Members of Palace Capital plc

We have audited the financial statements of Palace Capital plc for the year ended 31 March 2017 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and the Company Statement of Financial Position, the Consolidated and the Company Statement of Changes in Equity, the Consolidated Statement of Cash Flows and the related notes.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

A description of the scope of an audit of financial statements is provided on the FRC's website at www.frc.org.uk/auditscopeukprivate.

OPINION ON FINANCIAL STATEMENTS

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and the parent company's affairs as at 31 March 2017 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;

- the parent company's financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and Directors' report have been prepared in accordance with applicable legal requirements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Richard Levy (senior statutory auditor)

For and on behalf of BDO LLP, statutory auditor
London
United Kingdom

5 June 2017

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

**PROPERTY FOCUS****THE COPPERFIELDS | DARTFORD**

This was acquired as part of the Signal portfolio, a mixed-use retail and office property and is in the centre of a major commuter town in Kent, within walking distance of the station and opposite the Priory Shopping Centre. Following the office tenant vacating, Palace obtained permission to convert the office space to 13 residential flats in a £2.1m scheme which was completed in December 2016.

Dartford Council subsequently signed a 10-year lease without break at an initial annual rent of £146,500 rising at a fixed rate of 2.5% a year. The value of the asset had grown from £750k as a tertiary retail/office property to £4.5m as of March 2017.

COMPLETED | December 2016

VALUATION
£4.5m
+58%
ON COST

TOTAL SPACE
24,000sq ft



More info **on page 15**

Financial statements →



40 Consolidated Statement of Comprehensive Income

For the year ended 31 March 2017

	Note	2017 £'000	2016 £'000
Rental and other income	1	14,266	14,593
Non recoverable property costs	5b	(2,055)	(1,624)
Net rental income		12,211	12,969
Administrative expenses	5c	(2,915)	(2,048)
Operating profit before gains and losses on property assets and cost of acquisitions		9,296	10,921
Gains on revaluation of investment property portfolios		3,101	3,620
Profit on disposal of investment properties		3,191	290
Cost of acquisitions		–	(815)
Operating profit		15,588	14,016
Finance income	3	3	34
Finance expense	4	(3,014)	(2,298)
Profit before taxation		12,577	11,752
Taxation	7	(3,191)	(953)
Profit after taxation for the year attributable to owners of the parent		9,386	10,799
Other comprehensive income for the year		–	–
Total comprehensive income for the year		9,386	10,799
Attributable to: Equity holders of the parent		9,386	10,799
EARNINGS PER ORDINARY SHARE			
Basic	8	36.6p	43.9p
Diluted		36.5p	43.9p

All activities derive from continuing operations of the Group. The Notes form an integral part of these financial statements.

41 Consolidated Statement of Financial Position

As at 31 March 2017

	Note	2017 £'000	2016 £'000
Non-current assets			
Investment properties	11	183,916	174,542
Property, plant and equipment	12	43	37
Deferred tax	7	–	334
Trade and other receivables	13	–	825
		183,959	175,738
Current assets			
Trade and other receivables	13	2,511	3,327
Cash at bank and in hand	14	11,181	8,576
		13,692	11,903
Total assets		197,651	187,641
Current liabilities			
Trade and other payables	15	(6,161)	(6,815)
Borrowings	16	(2,036)	(2,233)
Creditors: amounts falling due within one year		(8,197)	(9,048)
Net current assets		5,495	2,855
Non-current liabilities			
Borrowings	16	(75,758)	(69,711)
Deferred tax	7	(2,187)	–
Obligations under finance leases	18	(1,950)	(2,067)
Net assets		109,559	106,815
Equity			
Called up share capital	19	2,580	2,862
Share premium account		59,444	59,408
Treasury shares		(2,250)	–
Merger reserve		3,503	3,503
Capital redemption reserve		340	65
Retained earnings		45,942	40,977
Equity – attributable to the owners of the parent		109,559	106,815
Basic NAV per ordinary share	9	436p	414p
Diluted NAV per ordinary share		434p	414p

These financial statements were approved by the Board of Directors and authorised for issue on 5 June 2017 and are signed on its behalf by:

Stephen Silvester
Finance Director

Neil Sinclair
Chief Executive

42 Consolidated Statement of Changes in Equity

For the year ended 31 March 2017

	Share Capital £'000	Share Premium £'000	Treasury Share Reserve £'000	Merger Reserve £'000	Capital Redemption Reserve £'000	Retained Earnings £'000	Total Equity £'000
At 31 March 2015	2,307	40,852	–	3,503	65	33,289	80,016
Total comprehensive income for the year	–	–	–	–	–	10,799	10,799
Issue of ordinary share capital net of expenses	555	18,556	–	–	–	–	19,111
Share-based payments	–	–	–	–	–	110	110
Dividends	–	–	–	–	–	(3,221)	(3,221)
At 31 March 2016	2,862	59,408	–	3,503	65	40,977	106,815
Total comprehensive income for the year	–	–	–	–	–	9,386	9,386
Redemption of shares	–	–	(2,357)	–	–	–	(2,357)
Issue of ordinary share capital net of expenses	2	36	107	–	–	–	145
Redemption of deferred shares	(284)	–	–	–	275	–	(9)
Share-based payments	–	–	–	–	–	237	237
Exercise of share options	–	–	–	–	–	(41)	(41)
Dividends	–	–	–	–	–	(4,617)	(4,617)
At 31 March 2017	2,580	59,444	(2,250)	3,503	340	45,942	109,559

For the purpose of preparing the consolidated financial statement of the Group, the share capital represents the nominal value of the issued share capital of Palace Capital plc.

Share premium represents the excess over nominal value of the fair value consideration received for equity shares net of expenses of the share issue.

The merger reserve represents the excess over nominal value of the fair value consideration for the acquisition of subsidiaries satisfied by the issue of shares in accordance with S612 of the Companies Act 2006.

Treasury shares represents the consideration paid for shares bought back from the market.

The capital redemption reserve represents the nominal value of cancelled preference share capital redeemed.

43 Consolidated Statement of Cash Flows

For the year ended 31 March 2017

	Note	2017 £'000	2016 £'000
Operating activities			
Net cash generated in operations	2	10,294	12,287
Interest received		–	34
Interest and other finance charges paid		(2,516)	(3,455)
Corporation tax paid in respect of operating activities		(1,047)	(158)
Net cash flows from operating activities		6,731	8,708
Investing activities			
Purchase of investment property	11	(10,950)	(21,689)
Payments to acquire subsidiary undertakings		–	(28,656)
Capital expenditure on refurbishment of investment property	11	(4,579)	(1,182)
Proceeds from disposal of investment property		12,447	1,957
Purchases of property, plant and equipment	12	(26)	(3)
Net cash flow (used in)/from investing activities		(3,108)	(49,573)
Financing activities			
Bank loans repaid		(19,952)	(17,010)
Proceeds from new bank loans		25,813	38,282
Issue of new share capital		29	19,114
Dividends paid	10	(4,617)	(3,221)
Purchase of treasury shares		(2,250)	–
Capital element of finance lease rental payments		–	(2)
Payment of share options exercised		(41)	–
Net cash flow from financing activities		(1,018)	37,163
Net increase in cash and cash equivalents			
		2,605	(3,702)
Cash and cash equivalents at beginning of the year		8,576	12,278
Cash and cash equivalents at the end of the year		11,181	8,576

44 Notes to the Consolidated Financial Statements

FINANCIAL STATEMENTS

BASIS OF ACCOUNTING

The consolidated financial statements of the Group comprise the results of Palace Capital plc ("the Company") and its subsidiary undertakings.

The Company is quoted on the AIM market of the London Stock Exchange and is domiciled and registered in England and Wales and incorporated under the Companies Act 1985. The address of its registered office is Lower Ground Floor, One George Yard, London, United Kingdom, EC3V 9DF.

The nature of the Company's operations and its principal activities are set out in the Strategic Report.

BASIS OF PREPARATION

The Group financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006.

These financial statements are for the year ended 31 March 2017 and have been prepared on a historical cost basis, except for investment properties which have been measured at fair value. The consolidated financial statements are presented in pounds sterling ("GBP") which is also the Company and the Group's functional currency.

The principal accounting policies adopted are set out below.

GOING CONCERN

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in these financial statements. In addition, note 24 to the financial statements includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and its exposures to credit risk and liquidity risk.

The Group has reasonable financial resources together with long-term contracts with a wide range of tenants. As a consequence, the Directors believe that the Group is well placed to manage its business risk successfully.

After making enquiries, and in accordance with the FRC's Going Concern and Liquidity Risk: Guidance for Directors of UK Companies 2009, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

NEW STANDARDS ADOPTED DURING THE YEAR

At the date of authorisation of these financial statements, the following accounting standards had been issued which are not yet applicable to the Group:

Mandatory for accounting periods beginning on or after 1 January 2018:

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers

Mandatory for accounting periods beginning on or after 1 January 2019:

- FRS 16 'Leases'

The Group has carried out an initial assessment of the impact of the adoption of the standards above. Based on this, the Directors do not anticipate that these will have a material impact on the financial statements of the Group in future periods, although it is noted that additional disclosures may be required. A detailed review of the impact of these standards will be undertaken in advance of their mandatory adoption.

Additionally, amendments to existing standards have been issued by the IASB, including:

- IFRS 2 (amendments) 'Classification and Measurement of Share-based Payment Transactions'
- IAS 7 (amendments) 'Disclosure Initiative'
- IAS 12 (amendments) 'Recognition of Deferred Tax Assets for Unrealised Losses'

The Directors do not consider that these amendments will materially impact the financial statements.

SIGNIFICANT ACCOUNTING POLICIES

Basis of Consolidation

The consolidated financial statements incorporate the financial statements of Palace Capital plc and its subsidiaries as at the year end date.

Subsidiaries are all entities (including special purpose entities) over which the Company has control. The Company controls an entity when the Group is exposed to, or has variable returns from, its involvement with the entity and has the ability to affect those returns through its power over the entity. Where necessary, adjustments have been made to the financial statements of subsidiaries, associates and joint ventures to bring the accounting policies used and accounting periods into line with those of the Group. Intra-group balances and any unrealised gains and losses arising from intra-group transactions are eliminated in preparing the Consolidated Financial Statements.

The results of subsidiaries acquired during the year are included from the effective date of acquisition, being the date on which the Group obtains control. They are de-consolidated on the date that control ceases.

Business combinations are accounted for under the acquisition method. Any excess of the consideration paid for the business combination over the fair value of the identifiable assets and liabilities acquired is recognised as goodwill.

The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. This fair value includes any contingent consideration. Acquisition-related costs are expensed as incurred.

If the consideration is less than the fair value of the assets and liabilities acquired, the difference is recognised directly in the Statement of Comprehensive Income.

Where an acquired subsidiary does not meet the definition of a business, it is accounted for as an asset acquisition rather than a business combination.

Revenue

Revenue is derived from property income and represents the value of accrued charges under operating leases for rental of the Group's investment properties. Revenue is measured at fair value of the consideration received. All income is derived in the United Kingdom.

Rental income from investment properties leased out under operating leases is recognised in the Income Statement on a straight-line basis over the term of the lease. Contingent rent reviews are recognised when such reviews have been agreed with tenants. Lease incentives and guaranteed rent review amounts are recognised as an integral part of the net consideration for use of the property and amortised on a straight-line basis over the term of lease.

Other income comprises insurance commission, property management fees and miscellaneous income and is accounted for on an accruals basis.

OPERATING PROFIT

Operating profit is stated before interest and tax.

FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group has become a party to the contractual provision of the instrument.

CONTRIBUTIONS TO PENSION SCHEMES

The Company operates a defined contribution pension scheme. The pension costs charged against profits are the contributions payable to the scheme in respect of the accounting period.

46 Notes to the Consolidated Financial Statements

FINANCIAL STATEMENTS

INVESTMENT PROPERTIES

Investment properties are those properties that are held either to earn rental income or for capital appreciation or both.

Investment properties are measured initially at cost including transaction costs and thereafter are stated at fair value, which reflects market conditions at the balance sheet date. Surpluses and deficits arising from changes in the fair value of investment properties are recognised in the Statement of Comprehensive Income in the year in which they arise.

Investment properties are stated at fair value as determined by the independent valuers. The fair value of the Group's property portfolio is based upon independent valuations and is inherently subjective. The fair value represents the amount at which the assets could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arms-length transaction at the date of valuation, in accordance with International Valuation Standards. In determining the fair value of investment properties, the independent valuers make use of historical and current market data as well as existing lease agreements.

Additions and disposals of investment properties are recognised in the accounts when contracts are completed.

The Group recognises investment property as an asset when it is probable that the economic benefits that are associated with the investment property will flow to the company and the Group can measure the cost of the investment reliably.

The Group evaluates all its investment property costs at the time they are incurred. These costs include costs incurred initially to acquire an investment property and costs incurred subsequently to add to, replace part of, or service a property. Any costs deemed as repairs and maintenance or any costs associated with the day-to-day running of the property will be recognised in the profit and loss account as they are incurred.

OBLIGATIONS UNDER FINANCE LEASES

Leases of assets where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in liabilities. The finance charges are charged to the Statement of Comprehensive Income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Investment properties classified as held under finance leases are subsequently carried at their fair value.

OPERATING LEASES

Amounts payable under operating leases are charged directly to the Statement of Comprehensive Income on a straight line basis over the period of the lease. The aggregate costs of operating lease incentives provided by the Group are recognised as a reduction in rental income on a straight line basis over the lease term.

PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION

Property, plant and equipment is stated at cost, net of depreciation and any provision for impairment. Depreciation is calculated to write down the cost less estimated residual value of all tangible fixed assets by equal annual instalments over their expected useful economic lives. The rates generally applicable are:

Fixtures, fittings and equipment	25% – 33% straight line
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TRADE AND OTHER RECEIVABLES

Trade and other receivables are recognised and carried at the original transaction value. A provision for impairment is established where there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables concerned.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

FINANCIAL LIABILITIES AND EQUITY

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

TRADE PAYABLES

Trade payables are initially measured at fair value and are subsequently measured at amortised cost, using the effective interest rate method.

EQUITY INSTRUMENTS

Equity instruments issued by the Company are recorded at the fair value of proceeds received, net of direct issue costs.

CURRENT TAXATION

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and the tax laws used to compute the amount are those that are enacted or substantively enacted, by the balance sheet date.

DEFERRED TAXATION

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in profit or loss, except when it relates to items charged or credited directly to other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

The government announced in the summer 2015 budget the reduction in the corporation tax rate from the current 20% main rate in the tax year 2016 to 19% with effect from 1st April 2017 and to 17% from 1st April 2020.

DIVIDENDS TO EQUITY HOLDERS OF THE PARENT

Interim ordinary dividends are recognised when paid and final ordinary dividends are recognised as a liability in the period in which they are approved by the shareholders.

SHARE-BASED PAYMENTS

The Group has applied the requirements of IFRS 2 Share-based payment to share options. The fair value of the share options are determined at the grant date and are expensed on a straight line basis over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting date so that ultimately the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Non-vesting conditions and market vesting conditions are factored into the fair values of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition or where a non-vesting condition is not satisfied.

COMMITMENTS AND CONTINGENCIES

Commitments and contingent liabilities are disclosed in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

EVENTS AFTER THE BALANCE SHEET DATE

Post year-end events that provide additional information about a company's position at the balance sheet date and are adjusting events are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes when material.

48 Notes to the Consolidated Financial Statements

FINANCIAL STATEMENTS

CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION AND UNCERTAINTY

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. Information about such judgements and estimation is contained in the accounting policies or the notes to the accounts, and the key areas are summarised below.

Investment properties

The key source of estimation uncertainty rests in the values of property assets, which significantly affects the value of investment properties in the Statement of Financial Position. The investment property portfolio is carried at fair value, which requires a number of judgements and estimates in assessing the qualities of the Group's assets relative to market transactions. The approach to this valuation and the amounts affected are set out in the accounting policies and note 11.

The Group has valued the investment properties at fair value. To the extent that any future valuation affects the fair value of the investment properties, this will impact on the Group's results in the period in which this determination is made.

Deferred tax

In determining the quantum of deferred tax assets to be recognised, judgement is required in assessing the extent to which it is probable that future taxable profit will arise in the companies concerned. Management use forecasts of future taxable profits and make assumptions on growth rates for each entity in assessing the recoverability of assets recognised.

Business combinations

In determining whether to account for a property acquisition in a special purpose vehicle as a business combination or as an acquisition of an investment property, management make an assessment based on the application of the IFRS 3 Business Combinations standard. Management make a professional judgement on the inputs, processes and outputs of the property prior to acquisition and whether these elements represent an acquisition of a fully functioning business or whether these are limited and represent solely an asset purchase.

Share-based payments

Equity-settled share awards are recognised as an expense based on their fair value at date of grant. The fair value of equity-settled share options is estimated through the use of option valuation models – which require inputs such as the risk-free interest rate, expected dividends, expected volatility and the expected option life – and is expensed over the vesting period. Some of the inputs used are not market observable and are based on estimates derived from available data. The models utilised are intended to value options traded in active markets. The share options issued by the Group, however, have a number of features that make them incomparable to such traded options. Using different input estimates or models could produce different option values, which would result in the recognition of a higher or lower expense. Judgement is also exercised in assessing the number of options subject to non market vesting conditions that will vest.

1. SEGMENTAL REPORTING

For the purpose of IFRS 8, the chief operating decision maker ("CODM") takes the form of the three executive Directors (the Group's Executive Committee). The Group's Executive Committee are of the opinion that the business of the Group is as follows.

The principal activity of the Group was to invest in commercial real estate in the UK.

IFRS 8 Operating Segments requires operating segments to be identified on the basis of internal financial reports about components of the Group that are regularly reviewed by the chief operating decision maker (which in the Group's case is its Group's Executive Committee).

The internal financial reports received by the Group's Executive Committee contain financial information at a Group level as a whole and there are no reconciling items between the results contained in these reports and the amounts reported in the financial statements. Additionally, information is provided to the Group's Executive Committee showing gross property income and property valuation by individual property. Therefore, for the purposes of IFRS 8, each individual property is considered to be a separate operating segment in that its performance is monitored individually.

The Group's property portfolio includes investment properties located throughout England, predominantly regional investments outside London and comprises a diverse portfolio of commercial buildings. The Directors consider that these properties have similar economic characteristics. Therefore, these individual properties have been aggregated into a single operating segment. In the view of the Directors, there is one reportable segment under the provisions of IFRS 8.

All of the Group's properties are based in the UK. No geographical grouping is contained in any of the internal financial reports provided to the Group's Executive Committee and, therefore, no geographical segmental analysis is required by IFRS 8.

Revenue – type	2017 £'000	2016 £'000
Rents received from investment properties	13,809	11,375
Management fees & other income	457	46
Surrender premium	–	3,172
Total Revenue	14,266	14,593

No single tenant accounts for more than 10% of the Groups total rents received from investment properties.

The surrender premium in the prior year resulted from the surrender of a lease by Gala (part of the Gala Coral Group) who held a lease until March 2028 on 28,000 sq ft at Sol Central, Northampton at a rental payable of £312,852 per annum. Gala paid to Palace Capital a cash sum of £3.0 million plus a proportion of a rates refund due to them to be relieved of any further liability for rent, service charge and rates.

2. RECONCILIATION OF OPERATING PROFIT

Reconciliation of operating profit to cash utilised in operations

	2017 £'000	2016 £'000
Profit before taxation	12,577	11,752
Finance income	(3)	(34)
Finance costs	3,014	2,298
Gains on revaluation of investment property portfolio	(3,101)	(3,620)
Profit on disposal of investment properties	(3,191)	(290)
Goodwill write off	–	6
Depreciation	20	18
Share-based payments	237	110
Decrease/(Increase) in receivables	1,681	(399)
(Decrease)/Increase in payables	(940)	2,446
Net cash generated in operations	10,294	12,287

3. OTHER INTEREST RECEIVABLE AND SIMILAR INCOME

	2017 £'000	2016 £'000
Bank interest received	3	34
	3	34

4. INTEREST PAYABLE AND SIMILAR CHARGES

	2017 £'000	2016 £'000
Interest on bank loans	2,452	1,652
Loan arrangement fees	249	502
Debt termination cost	155	–
Interest on finance leases	158	144
	3,014	2,298

50 Notes to the Consolidated Financial Statements

FINANCIAL STATEMENTS

5. PROFIT FOR THE PERIOD

a) The Group's profit for the period is stated after charging the following:

	2017 £'000	2016 £'000
Depreciation of tangible fixed assets:	20	18
Auditor's remuneration:		
Fees payable to the auditor for the audit of the Group's annual accounts	50	42
Fees payable to the auditor for the audit of the subsidiaries annual accounts	21	15
Fees payable to the auditor and its related entities for other services:		
Corporate advisory services	–	98
Audit related assurance services	8	17
Tax services	18	13
	97	185

Amounts payable to BDO LLP in respect of audit and non-audit services are disclosed in the table above.

b) The Group's property costs comprise the following:

	2017 £'000	2016 £'000
Void investment property costs	1,010	1,236
Void development property costs	1,045	275
Repairs and maintenance expenses	–	90
Legal and consultancy	–	23
	2,055	1,624

c) The Group's administrative expenses comprise the following:

	2017 £'000	2016 £'000
Staff costs	1,413	803
Legal & professional fees	393	269
Share-based payments	237	110
PR and marketing costs	197	201
Property management fees	178	122
Accounting and audit fees	141	133
Consultancy and recruitment fees	93	84
Stock Exchange costs	86	88
Rent, rates and other office costs	80	79
Other overheads	77	135
Depreciation	20	18
Write-off of goodwill	–	6
	2,915	2,048

6. EMPLOYEES AND DIRECTORS' REMUNERATION

Staff costs during the period were as follows:

	2017 £'000	2016 £'000
Non-Executive Directors' fees	84	80
Wages and salaries	1,150	640
Pensions	55	14
Social security costs	124	69
Share-based payments	237	110
	1,650	913

The average number of employees of the Group and the Company during the period was:

	2017 Number	2016 Number
Directors and management	6	7
Administration	5	2
	11	9

Key management are the Group's Directors. Remuneration in respect of key management was as follows:

	2017 £'000	2016 £'000
Short-term employee benefits:		
Emoluments for qualifying services	992	610
Social security costs	132	76
Pension	37	13
	1,161	699
Share-based payments	198	99
Gain on share options exercised	30	–
	1,389	798

The amounts set out above include remuneration in respect of the highest paid Director as follows:

	2017 £'000	2016 £'000
Short-term employee benefits:		
Emoluments for qualifying services	413	299
	413	299
Share-based payments	120	64
Gain on share options exercised	20	–
	553	363

Full details of the Directors' individual remuneration can be found in the Corporate Governance section on pages 35 and 36.

52 Notes to the Consolidated Financial Statements

FINANCIAL STATEMENTS

7. TAXATION

	2017 £'000	2016 £'000
Current income tax charge	683	726
Tax (over)/underprovided in prior year	(13)	6
Deferred tax	2,521	221
Tax charge	3,191	953

	2017 £'000	2016 £'000
Profit on ordinary activities before tax	12,577	11,752
Based on profit for the period: Tax at 20.0% (2016: 20%)	2,515	2,350
Effect of:		
Expenses not deductible for tax purposes	–	163
Capital losses and indexation used in the period	(1,260)	(1,416)
Capital allowances in excess of depreciation	–	(89)
Other adjustments	52	59
Tax under/over provided in prior years	(13)	6
Deferred tax not previously recognised	1,897	(120)
Tax charge for the period	3,191	953

Deferred taxes at 31 March relates to the following:

	2017 £'000	2016 £'000
Deferred tax asset – brought forward	334	500
Losses used in the year	(321)	(221)
Deferred tax liability on accelerated capital allowances	(2,142)	–
Deferred tax on fair value of investment property	(58)	–
Deferred tax recognised on acquisition	–	55
Deferred tax (liability)/asset – carried forward	(2,187)	334

	2017 £'000	2016 £'000
Accelerated capital allowances	(2,142)	–
Investment property unrealised valuation gains	(58)	–
Losses carried forward	13	334
Deferred tax (liability)/asset	(2,187)	334

Capital allowances have been claimed on improvements to investments properties amounting to £12,908,312 (2016: £13,846,721). A deferred tax liability amounting to £2,141,760 has been recognised in the financial statements, although it is expected that they will not reverse when the properties are disposed of.

A deferred tax liability on the revaluation of investment properties to fair value has been provided totalling £58,000 as once the availability of capital losses, indexation allowances and the 1982 valuations for certain properties have been taken into account it is anticipated that capital gains tax would be payable if the properties were disposed of at their fair value. As at 31 March 2017 the Group had approximately £6,500,000 (2016: £1,872,057) of realised capital losses to carry forward.

Finance Act 2015 sets the main rate of UK corporation tax at 20 per cent with effect on 1 April 2015. The enactment of Finance (No. 2) Act 2015 and Finance Act 2016 reduces the main rate of corporation tax to 19 per cent from April 2017 and 17 per cent from April 2020. The deferred tax liability has been calculated on the basis of 17 percent due to the expectation that all properties are retained through April 2020.

8. EARNINGS PER SHARE

Basic earnings per share

Basic earnings per share and Diluted earnings per share have been calculated on profit after tax attributable to ordinary shareholders for the period (as shown on the Consolidated Statement of Comprehensive Income) and for the Earnings per share, the weighted average number of ordinary shares in issue during the period (see below table) and for Diluted weighted average number of ordinary shares in issue during the period (see below table).

	2017 £'000	2016 £'000
Profit after tax attributable to ordinary shareholders for the period	9,386	10,799
	2017 No of shares	2016 No of shares
Weighted average number of shares for basic earnings per share	25,650,141	24,597,258
Dilutive effect of share options	87,584	20,730
Weighted average number of shares for diluted earnings per share	25,737,725	24,617,988
Earnings per ordinary share:		
Basic	36.6p	43.9p
Diluted	36.5p	43.9p

Key Performance Measures

The Group financial statements are prepared under IFRS which incorporates non-realised fair value measures and non-recurring items. Alternative Performance Measures ('APMs'), being financial measures which are not specified under IFRS are also used by Management to assess the Group's performance. These include a number of European Public Real Estate Association ('EPRA') measures, prepared in accordance with the EPRA Best Practice Recommendations (BPR) reporting framework the latest update of which was issued in November 2016. We report a number of these measures (detailed in the glossary of terms) because Management considers them to improve the transparency and relevance of our published results as well as the comparability with other listed European real estate companies.

54 Notes to the Consolidated Financial Statements

FINANCIAL STATEMENTS

8. EARNINGS PER SHARE CONTINUED

EPRA EPS and EPRA Diluted EPS

EPRA Earnings is a measure of operational performance and represents the net income generated from the operational activities. It is intended to provide an indicator of the underlying income performance generated from the leasing and management of the property portfolio. EPRA earnings are calculated taking the profit after tax excluding investment property revaluations and gains and losses on disposals, changes in fair value of financial instruments, associated close-out costs, one-off finance termination costs, share-based payments and other one-off exceptional items. EPRA earnings is calculated on the basis of the basic number of shares in line with IFRS earnings as the dividends to which they give rise accrue to current shareholders and therefore it is more appropriate to use the basic number of shares. The EPRA diluted earnings per share also takes into account the dilution of share options and warrants if exercised.

Adjusted profit before tax and Adjusted EPS

Palace Capital also report an adjusted earnings measure which is based on recurring earnings before tax and on the basis of the basic number of shares. This takes EPRA earnings as the starting point and then adds back tax and any other fair value movements or one-off items that were included in EPRA earnings. For Palace Capital this includes share-based payments being a fair value measure and also one-off surrender premiums received. This provides the underlying income performance of the company and therefore the basis for the dividend policy. The corporation tax charge (excluding deferred tax movements) is deducted in order to calculate the adjusted earnings per share and dividend cover is based on this calculation.

The EPRA and adjusted earnings per share for the period are calculated based upon the following information:

	2017 £'000	2016 £'000
Profit before tax	12,577	11,752
Adjustments:		
Costs of acquisition	–	815
Gains on revaluation of investment property portfolio	(3,101)	(3,620)
Profit on disposal of investment properties	(3,191)	(290)
Debt termination cost	155	–
Surrender Premium	–	(3,172)
Share-based payment	237	110
Adjusted profit before tax for the period	6,677	5,595
Tax charge for the year	(3,191)	(953)
Deferred tax charge on revaluation gains and capital allowances reversed	2,200	–
Adjusted profit after tax for the period	5,686	4,642
Share-based payment	(237)	(110)
Surrender premium	–	3,172
EPRA earnings for the period	5,449	7,704
EPRA AND ADJUSTED EARNINGS PER ORDINARY SHARE;		
EPRA Basic	21.2p	31.3p
EPRA Diluted	21.2p	31.3p
Adjusted EPS	22.2p	18.9p

9. NET ASSETS VALUE PER SHARE

EPRA NAV calculation makes adjustments to IFRS NAV to provide stakeholders with the most relevant information on the fair value of the assets and liabilities within a true real estate investment company with a long-term investment strategy. EPRA NAV is adjusted to take effect of the exercise options, convertibles and other equity interests and excludes the fair value of financial instruments and deferred tax on latent gains. EPRA NNNAV measure is to report net asset value including fair values of financial instruments and deferred tax on latent gains.

The diluted net assets and the number of diluted ordinary issued shares at the end of the period assumes that all the outstanding options that are exercisable at the period end are exercised at the option price.

Net asset value is calculated using the following information:

	2017 £'000	2016 £'000
Net assets at the end of the period	109,559	106,815
Effect of exercise of share options	–	109
Diluted net assets at end of the period	109,559	106,924
Exclude fair value of financial instruments & exclude deferred tax on latent capital gains	2,200	–
EPRA NAV	111,759	106,924
Include fair value of financial instruments & include deferred tax on latent capital gains	(2,200)	–
EPRA NNNAV	109,559	106,924

	2017 No of shares	2016 No of shares
Number of ordinary shares issued at the end of the period (excluding treasury shares)	25,150,692	25,781,229
Dilutive effect of share options	87,584	20,730
Number of ordinary shares issued for diluted and EPRA net assets per share	25,238,276	25,801,959
Net assets per ordinary share		
Basic	436p	414p
Diluted	434p	414p
EPRA NAV	443p	414p
EPRA NNNAV	434p	414p

56 Notes to the Consolidated Financial Statements

FINANCIAL STATEMENTS

10. DIVIDENDS

	Payment date	Dividend per share	2017 £'000	2016 £'000
2017				
Final dividend proposed	28 July 2017	9.50	–	–
Interim dividend	30 December 2016	9.00	2,309	–
Distribution of current year profit		18.50	2,309	–
2016				
Final dividend	29 July 2016	9.00	2,308	–
Interim dividend	30 December 2015	7.00	–	1,805
Distribution of prior year profit		16.00	2,308	1,805
2015				
Final dividend	31 July 2015	7.00	–	1,416
Interim dividend	30 December 2014	6.00	–	–
		13.00	–	1,416
Dividends reported in the Group statement of changes in equity			4,617	3,221

Proposed Dividends

	2017 £'000	2016 £'000
2017 final dividend: 9.50p (2016: 9.00p)	2,389	2,320

Proposed dividends on ordinary shares are subject to approval at the Annual General Meeting and are not recognised as a liability as at 31 March 2017.

11. INVESTMENT PROPERTIES

	Freehold Investment properties £'000	Leasehold Investment properties £'000	Total £'000
At 1 April 2015	84,568	18,420	102,988
Arising on acquisition of subsidiary undertakings	44,880	–	44,880
Additions – refurbishment	1,149	33	1,182
Additions – new properties	18,653	4,886	23,539
Gains on revaluation of investment properties	1,840	1,780	3,620
Disposals	(1,667)	–	(1,667)
At 1 April 2016	149,423	25,119	174,542
Additions – refurbishment	4,505	74	4,579
Additions – new properties	10,950	–	10,950
Gains on revaluation of investment properties	3,090	11	3,101
Disposals	(7,740)	(1,516)	(9,256)
At 31 March 2017	160,228	23,688	183,916

Investment properties are stated at fair value as determined by independent valuers who make use of historical and current market data as well as existing lease agreements. The fair value of the Group's property portfolio is based upon independent valuations and is inherently subjective. The fair value represents the amount at which the assets could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arms-length transaction at the date of valuation, in accordance with International Financial Reporting Standard 13. The fair value of each of the properties has been assessed by the independent valuers.

As a result of the level of judgement used in arriving at the market valuations, the amounts which may ultimately be realised in respect of any given property may differ from the valuations shown in the Statement of Financial Position.

In addition to the gain on revaluation of investment properties included in the table above, realised gains of £3,191,417 (2016: £290,525) relating to investment properties disposed of during the year were recognised in profit or loss.

A reconciliation of the valuations carried out by the independent valuers to the carrying values shown in the Statement of Financial Position was as follows:

	2017 £'000	2016 £'000
Scanlans Consultant Surveyors LLP	–	2,017
Cushman & Wakefield LLP	183,175	147,174
Knight Frank	–	24,000
Directors' valuation	–	250
Fair value	183,175	173,441
Adjustment in respect of minimum payment under head leases	1,959	2,076
Less lease incentive balance included in prepayments	(1,218)	(975)
Carrying value	183,916	174,542

The valuations of all investment property held by the Group is classified as Level 3 in the IFRS 13 fair value hierarchy as they are based on unobservable inputs. There have been no transfers between levels of the fair value hierarchy during the year.

58 Notes to the Consolidated Financial Statements

FINANCIAL STATEMENTS

11. INVESTMENT PROPERTIES CONTINUED

Valuation process

The valuation reports produced by the independent valuers are based on information provided by the Group such as current rents, terms and conditions of lease agreements, service charges and capital expenditure. This information is derived from the Group's financial and property management systems and is subject to the Group's overall control environment.

In addition, the valuation reports are based on assumptions and valuation models used by the independent valuers. The assumptions are typically market related, such as yields and discount rates, and are based on their professional judgment and market observations. Each property is considered a separate asset, based on its unique nature, characteristics and the risks of the property.

The Executive Director responsible for the valuation process verifies all major inputs to the external valuation reports, assesses the individual property valuation changes from the prior year valuation report and holds discussions with the external valuers. When this process is complete, the valuation report is recommended to the Audit Committee, which considers it as part of its overall responsibilities.

The key assumptions made in the valuation of the Group's investment properties are:

- The amount and timing of future income streams;
- Anticipated maintenance costs and other landlord's liabilities; and
- An appropriate yield.

Valuation technique

The valuations reflect the tenancy data supplied by the Group along with associated revenue costs and capital expenditure. The fair value of the commercial investment portfolio has been derived from capitalising the future estimated net income receipts at capitalisation rates reflected by recent arm's length sales transactions.

	Significant unobservable inputs
31 March 2017	Cushman & Wakefield
Value of investment properties	£183,175,000
Area (sq ft)	1,576,206
Gross Estimated Rental Value	£15,892,432
Net Initial Yield	
Minimum	0.9%
Maximum	9.2%
Weighted average	5.9%
Reversionary Yield	
Minimum	5.5%
Maximum	18.7%
Weighted average	6.9%
Equivalent Yield	
Minimum	3.2%
Maximum	11.7%
Weighted average	7.6%

Negative Net Initial Yields arise where properties are vacant or partially vacant and void costs exceed rental income.

31 March 2016	Significant unobservable inputs		
	Cushman & Wakefield	Knight Frank	Scanlans
Value of investment properties	£147,174,000	£24,000,000	£2,017,000
Area (sq ft)	1,710,355	114,274	22,820
Gross Estimated Rental Value	£12,559,734	£1,775,104	£196,910
Net Initial Yield			
Minimum	-6.9%	6.3%	8.3%
Maximum	13.4%	31.0%	10.5%
Weighted average	6.1%	7.0%	9.8%
Reversionary Yield			
Minimum	5.5%	6.9%	8.3%
Maximum	15.8%	6.9%	10.5%
Weighted average	6.7%	6.9%	9.8%
Equivalent Yield			
Minimum	3.2%	6.3%	8.3%
Maximum	12.1%	17.5%	10.5%
Weighted average	8.0%	7.5%	9.8%

Sensitivity of measurement to variations in the significant unobservable inputs.

Unobservable input	Impact on fair value measurement of significant increase in input	Impact on fair value measurement of significant decrease in input
Gross Estimated Rental Value	Increase	Decrease
Net Initial Yield	Decrease	Increase
Reversionary Yield	Increase	Decrease
Equivalent Yield	Decrease	Increase

The relationship between the unobservable inputs and their impact on the fair value measurement is not certain. Changes to the tenancies and/or income profile of an investment asset may also impact the fair value outside one or more of the above inter-relationships according to individual circumstances.

60 Notes to the Consolidated Financial Statements

FINANCIAL STATEMENTS

12. PROPERTY, PLANT AND EQUIPMENT

	IT, fixtures and fittings £000
At 1 April 2015	63
Assets acquired	–
Additions	3
At 1 April 2016	66
Assets acquired	–
Additions	26
At 31 March 2017	92
Depreciation	
At 1 April 2015	11
Provided during the year	18
At 1 April 2016	29
Provided during the year	20
At 31 March 2017	49
Net book value at 31 March 2017	43
Net book value at 31 March 2016	37

13. TRADE AND OTHER RECEIVABLES

	2017 £000	2016 £000
Current		
Gross amounts receivable from tenants	1,090	2,727
Less: provision for impairment	(139)	(243)
Net amount receivable from tenants	951	2,484
Other taxes	–	68
Other debtors	61	37
Accrued income	1,218	150
Prepayments	281	588
	2,511	3,327
	2017 £000	2016 £000
Non-Current		
Accrued income	–	825
	–	825

Accrued income amounting to £1,218,000 (2016: £975,000) relates to rents recognised in advance as a result of spreading the effect of rent free and reduced rent periods, capital contributions in lieu of rent free periods and contracted rent uplifts over the expected terms of their respective leases.

61

FINANCIAL STATEMENTS

Movements in the provision for impairment of trade receivables were as follows:

	2017 £'000	2016 £'000
Brought forward	243	90
Utilised in the period	(182)	(11)
Provisions increased	78	164
	139	243

As at 31 March, the analysis of trade receivables that were past due but not impaired is as follows:

	2017 £'000	2016 £'000
0 – 30 days	630	2,106
31 – 60 days	92	95
61 – 90 days	21	66
91 – 120 days	78	46
More than 120 days	130	171
	951	2,484

14. CASH AND CASH EQUIVALENTS

All of the Group's cash and cash equivalents at 31 March 2017 and 31 March 2016 are in Sterling and held at floating interest rates.

	2017 £'000	2016 £'000
Cash and cash equivalents	11,181	8,576

The Directors consider that the carrying amount of cash and cash equivalents approximates to their fair value.

15. TRADE AND OTHER PAYABLES

	2017 £'000	2016 £'000
Trade payables	570	638
Corporation tax	564	662
Other taxes	844	1,036
Other payables	6	67
Deferred rental income	2,860	2,605
Accruals	1,317	1,807
	6,161	6,815

62 Notes to the Consolidated Financial Statements

FINANCIAL STATEMENTS

16. BORROWINGS

	2017 £'000	2016 £'000
Current		
Bank loans	2,036	2,233
Non-current liabilities		
Bank loans	75,758	69,711
Total borrowings	77,794	71,944

	2017 £'000	2016 £'000
Non-current liabilities		
Secured Bank loans drawn	76,694	70,445
Unamortised lending costs	(936)	(734)
	75,758	69,711

The maturity profile of the Group's debt was as follows:

	2017 £'000	2016 £'000
Within one year	2,036	2,233
From one to two years	2,036	17,068
From two to five years	61,806	53,377
After 5 years	12,852	–
	78,730	72,678

Facility and arrangement fees

As at 31 March 2017

Secured Borrowings	All in cost	Maturity date	Loan Balance £'000	Unamortised facility fees £'000	Facility drawn £'000
Santander Bank PLC	2.59%	Jun 2020	15,512	(200)	15,712
Lloyds Bank PLC	2.44%	May 2019	4,018	(45)	4,063
National Westminster Bank PLC	2.84%	Mar 2021	25,360	(308)	25,668
Nationwide Building Society	3.12%	Nov 2020	18,096	(159)	18,255
Scottish Widows	2.90%	Jul 2026	14,808	(224)	15,032
	2.90%		77,794	(936)	78,730

Investment properties with a carrying value of £162,320,000 (2016: £151,065,990) are subject to a first charge to secure the Group's bank loans amounting to £78,730,000 (2016: £72,678,233).

The Group has an unused loan facility amounting to £3,582,000 (2016: £8,000,000). Interest is charged on this facility at a rate of 1.25% and is payable quarterly. This facility is secured on the investment properties held by Property Investment Holdings Limited and Palace Capital (Properties) Limited.

The Group constantly monitors its approach to managing interest rate risk. The Group has fixed £25,032,000 (2016: £nil) of its debt in order to provide surety of its interest cost and to mitigate interest rate risk. The remaining debt in place at year end is subject to floating rate in order to take advantage of the historically low interest rate environment.

The Group has been in compliance with all financial covenants of the above facilities applicable throughout the year.

17. GEARING AND LOAN TO VALUE RATIO

The calculation of gearing is based on the following calculations of net assets and net debt:

	2017 £'000	2016 £'000
EPRA Net asset value	111,759	106,815
Borrowings net of issue cost	77,794	71,944
Obligations under finance leases	1,950	2,067
Cash and cash equivalents	(11,181)	(8,576)
Net Debt	68,563	65,435
EPRA NAV Gearing	61%	61%

The calculation of bank loan to property value is calculated as follows:

	2017 £'000	2016 £'000
Fair value of Property portfolio	183,175	173,441
Borrowings	78,730	72,678
Cash at bank	(11,181)	(8,576)
Net bank borrowings	67,549	64,102
Loan to value ratio	43%	42%
Net Loan to value ratio	37%	37%

18. LEASES

Operating lease receipts in respect of rents on investment properties are receivable as follows:

	2017 £'000	2016 £'000
Within one year	13,204	12,165
From one to two years	10,882	10,734
From two to five years	22,810	24,987
From five to 25 years	41,001	44,204
After 25 years	–	685
	87,897	92,775

Operating lease payments in respect of rents on leasehold properties occupied by the Group are payable as follows:

	2017 £'000	2016 £'000
Within one year	13	45
From one to two years	–	12
From two to five years	–	–
	13	57

64 Notes to the Consolidated Financial Statements

FINANCIAL STATEMENTS

18. LEASES CONTINUED

Finance lease obligations in respect of rents payable on leasehold properties were payable as follows:

	2017			2016
	Minimum lease payments £'000	Interest £'000	Present value of minimum lease payments £'000	Present value of minimum lease payments £'000
Within one year	122	(120)	2	2
From one to two years	122	(120)	2	2
From two to five years	366	(358)	8	6
From five to 25 years	2,392	(2,329)	63	68
After 25 years	9,739	(7,864)	1,875	1,989
	12,741	(10,791)	1,950	2,067

The net carrying amount of the leasehold properties is shown in note 11.

The Group has over 150 leases granted to its tenants. These vary dependent on the individual tenant and the respective property and demise and vary considerably from short-term leases of less than one year to longer term leases of over 10 years.

A number of these leases contain rent free periods. Standard lease provisions include service charge payments and recovery of other direct costs. All investment properties in the Group's portfolio generated rental income during the both the current and prior periods.

19. SHARE CAPITAL

Authorised, issued and fully paid share capital is as follows:	2017 £'000	2016 £'000
25,800,279 Ordinary Shares of 10p each (2016: 25,781,229)	2,580	2,578
Nil Deferred Shares of 90p each (2016: 315,937)	–	284
	2,580	2,862

Reconciliation of movement in ordinary share capital	2017 £'000	2016 £'000
At start of year	2,578	2,023
Issued in the year	2	555
At end of year	2,580	2,578

Movement in ordinary authorised share capital		Price per share pence	Number of ordinary shares issued 000s	Total number of shares 000s
As at 1 Apr 2015				20,225,673
Equity issue	17 June 2015	360	5,555,556	
As at 31 Mar 2016				25,781,229
Exercise of warrants	15 June 2016	200	19,050	
Share buy-back by company	17 June 2016	360	(91,587)	
Share buy-back by company	20 June 2016	360	(58,000)	
Share options issued from Treasury	10 March 2017	340	31,593	
Share buy-back by company	10 March 2017	340	(531,593)	
Total number of shares excluding the number held in treasury				25,150,692

Year ending 31 March 2017

On 15 June 2016 the Company issued 19,050 ordinary 10p shares. The issue costs amounting to £36,195 have been deducted from the share premium account.

On 17 June 2016 the Company purchased 91,587 ordinary 10p shares at a price of £3.60. All these purchased shares are to be held as treasury shares.

On 20 June 2016 the Company purchased 58,000 ordinary 10p shares at a price of £3.60. All these purchased shares are to be held as treasury shares.

On 10 March 2017 the Company issued 31,593 ordinary 10p shares from treasury at a price of £3.40.

On 10 March 2017 the Company purchased 531,593 ordinary 10p shares at a price of £3.40. All these purchased shares are to be held as treasury shares.

A reduction of the Company's share capital by way of cancellation of the Deferred Shares was carried out and completed on 31 August 2016. The Company's issued share capital included 315,938 Deferred Shares as at 31 March 2016. The nominal value of the Deferred Shares was part of the capital of the Company and therefore not distributable. The Deferred Shares were created as a result of the reorganisation of the Company's share capital on 18 October 2013 when each issued ordinary share of £0.01 was consolidated and converted into one new Ordinary Share of £0.10 and one Deferred Share of £0.90. The Deferred Shares carried no voting or dividend rights and only very limited rights to participate in the capital of the Company upon a winding-up. These rights are such as to make the Deferred Shares virtually worthless in the hands of the holder.

In the Company's books the capital paid up on the Deferred Shares represented £284,244, being the aggregate nominal value of all the Deferred Shares. Cancelling the Deferred Shares with the prior approval of Shareholders by way of a special resolution and the subsequent approval of the Court has resulted in the removal of them from the Company's balance sheet and permitted an amount of £284,244 to be released to the Capital Redemption Reserve, which may be used to reduce or eliminate losses (if any) arising on the profit and loss account, and will also be retained for the protection of the Company's creditors that are in existence as at the date of the Capital Reduction. Additional fees of £8,786 were incurred as a result of the cancellation of the Deferred Shares and have been recognised as a debit against the Capital Redemption Reserve.

Year ending 31 March 2016

On 17 June 2015 the Company issued 5,555,556 ordinary 10p shares at a price of £3.60. Issue costs amounting to £885,383 were incurred and have been deducted from the share premium account.

Share options:

Reconciliation of movement in outstanding share options	2017 No of options	2016 No of options
At start of year	569,022	448,754
Issued in the year	171,281	120,268
Exercised in the year	(50,643)	–
Lapsed in the year	–	–
At end of year	689,660	569,022

66 Notes to the Consolidated Financial Statements

FINANCIAL STATEMENTS

19. SHARE CAPITAL CONTINUED

As at 31 March 2017, the Company had the following outstanding unexpired options.

Description of unexpired share options	2017		2016	
	No of options	Weighted average option price	No of options	Weighted average Option price
Employee benefit plan (note 20)	689,660	0p	549,972	13p
Warrants issued to Nominated Adviser and Broker	–	0p	19,050	200p
Total	689,660	0p	569,022	20p
Exercisable	–	0p	50,643	216p
Not exercisable	689,660	0p	518,379	0p

Warrants issued to the Group's Nominated Adviser and Broker

The Group's Nominated Adviser and Broker received 248,715 options in 2014 in exchange for part of the fee charged by the brokers for the share issue that occurred during that year and the Directors considered the fair value of the service to be £50,000. All options had been exercised by the balance sheet date and there were none remaining at 31 March 2017.

20. SHARE-BASED PAYMENTS

Employee benefit plan

The following table illustrates the number and weighted average exercise prices of, and movements in, share options during the year:

	Number of options	Exercise price	Grant date	Vesting date
Outstanding at 31 March 2015	429,704	17p		
Issued during the year (LTIP 2015)	120,268	0p	8 Dec 2015	8 Dec 2018
Outstanding at 31 March 2016	549,972	13p		
Issued during the year (LTIP 2016)	171,281	0p	4 July 2016	4 July 2019
Exercised during the year	(31,593)	225p		
Outstanding at 31 March 2017	689,660	0p		

LTIP 2014

The options are awarded to employees on achievements against target on two separate measures over the three financial years ending 31 March 2017. Half the options will be awarded based on the first target and half based on the achievement of the second.

Earnings per share (EPS) growth: is based on an adjusted profit after tax excluding property revaluations and disposal profits/losses for the financial year. This target will measure the compound growth in EPS over the three year period ending 31 March 2017.

Total shareholder return (TSR) measures the total shareholder return (share price rise plus dividends) over the period from 21 October 2013 to 31 March 2017. The base price being £2.00 per share which was the placing price on that day.

Average annual TSR (compounded) over the TSR performance period	Vesting %	Average annual EPS growth (compounded) over the EPS performance period	Vesting %
<20%	0	<15%	0
Equal to 20%	33.33	Equal to 15%	50
Equal to 25%	66.66	Equal to 30%	100
Equal to 30%	100		

For the TSR measure, the achievement of between 25% and 30% compound growth will result in the number of Ordinary shares vesting to be calculated on a straight line basis between 66.66% and 100%. A similar rule will apply between 20% and 25% and for the EPS condition between 15% and 30%.

LTIP 2015

The options are awarded to management on achievements against target on two separate measures over the three-year period ending 30 September 2018. Half the options will be awarded based on the first target and half based on the achievement of the second.

Net asset value per share (NAV) growth: is based on the Company's EPRA NAV per share as at 30 September 2018 adding back dividends per share paid during the period. This target will measure the compound growth in NAV over the three-year period ending 30 September 2018. The base level being £4.04 per share which was the EPRA NAV per share as at 30 September 2015.

Total shareholder return (TSR) measures the total shareholder return (price rise plus dividends) over the period from 1 October 2015 to 30 September 2018. The base price being £3.70 per share which was the market price at the grant date.

Average annual TSR (compounded) over the TSR performance period	Vesting %	Average annual NAV growth (compounded) over the TSR performance period	Vesting %
<8%	0	<8%	0
Equal to 8%	33.33	Equal to 8%	33.33
Equal to 13%	100	Equal to 13%	100

For the TSR measure, the achievement of between 8% and 13% compound growth will result in the number of Ordinary shares vesting to be calculated on a straight line basis between 33.33% and 100%. A similar rule will apply for the NAV condition between 8% and 13%.

LTIP 2016

The options are awarded to employees on achievements against targets on two separate measures over the three financial years ending 31 March 2019. Half the options will be awarded based on the first target and half based on the achievement of the second.

Net asset value per share (NAV) growth is based on the Company's EPRA NAV value per share as at 31 March 2016. This target will measure the compound growth in NAV over the three-year period ending 31 March 2019, and comparing this with the Net Asset Value Growth of a group of comparable companies. The base NAV per share being £4.14.

Total shareholder return (TSR) measures the total shareholder return (price rise plus dividends) over the period from 1 April 2016 to 31 March 2019. The base price being £3.16 per share which was the market price at the grant date.

Average annual TSR (compounded) over the TSR performance period	Vesting %	Average annual NAV growth (compounded) over the TSR performance period	Vesting %
<8%	0	At median	20
Equal to 8%	33.33	Between median and upper quartile	20–100
Equal to 13%	100	Upper quartile and above	100

For the TSR measure, the achievement of between 8% and 13% compound growth will result in the number of Ordinary shares vesting to be calculated on a straight line basis between 33.33% and 100%. A similar rule will apply for the NAV condition between median and upper quartile.

68 Notes to the Consolidated Financial Statements

FINANCIAL STATEMENTS

20. SHARE-BASED PAYMENTS CONTINUED

The fair value of grants was measured at the grant date using a Black-Scholes pricing model for the NAV tranche and using a Monte Carlo pricing model for the TSR tranche, taking into account the terms and conditions upon which the instruments were granted. The services received and a liability to pay for those services are recognised over the expected vesting period. The main assumptions of both the Black-Scholes and Monte Carlo pricing models are as follows:

	Monte Carlo TSR Tranche	Black-Scholes NAV Tranche
Grant date	04.07.16	04.07.16
Share price	£3.16	£3.16
Exercise price	0p	0p
Term	3 years	3 years
Expected volatility	20.80%	20.80%
Expected dividend yield	4.41%	4.41%
Risk free rate	0.17%	0.17%
Time to vest (years)	3.0	3.0
Expected forfeiture p.a.	0%	0%
Fair value per option	£0.79	£2.77

The expense recognised for employee share-based payment received during the period is shown in the following table:

	2017 £'000	2016 £'000
Palace Capital No 1 share option scheme	–	–
LTIP 2014	108	77
LTIP 2015	82	33
LTIP 2016	47	–
Total expense arising from share-based payments	237	110

21. RELATED PARTY TRANSACTIONS

Accounting services amounting to £85,863 (2016: £75,633) have been provided to the Group by Stanley Davis Group Limited, a company where Stanley Davis is a Director.

22. CAPITAL COMMITMENTS

The obligation for capital expenditure relating to the construction, development or enhancement of investment properties entered into by the Group at 31 March 2017 amounted to £78,363 (2016: £1,435,985).

23. POST BALANCE SHEET EVENT

The Company announced on the 2 May 2017 that it had entered into an agreement to acquire an office building for £20m subject to contract and is expected to complete in the Summer 2017.

24. FINANCIAL RISK MANAGEMENT

The Group's principal financial liabilities are loans and borrowings. The main purpose of the Group's loans and borrowings is to finance the acquisition and development of the Group's property portfolio. The Group has rent and other receivables, trade and other payables and cash and short-term deposits that arise directly from its operations. All financial assets are classified as loans and receivables and all financial liabilities are measured at amortised cost.

The Group is exposed to market risk (including interest rate risk and real estate risk), credit risk and liquidity risk.

The Group's senior management oversee the management of these risks, and the Board of Directors has overall responsibility for the determination of the Group's risk management objectives and policies and it sets policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility. Further details regarding these policies are set out below:

Capital risk management

The Group considers its capital to comprise its share capital, share premium, other reserves and retained earnings which amounted to £109,559,765 at 31 March 2017 (2016: £106,815,113). The Group's capital management objectives are to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to provide an adequate return to shareholders by pricing its services commensurately with the level of risk.

Within the subsidiaries of the Group, the business has covenanted to maintain a specified leverage ratio and a net interest expense coverage ratio, all the terms of which have been adhered to during the year.

The Group manages its capital structure, and makes adjustments to it, in the light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed on pages 45 to 48 to these financial statements.

Market risk

Market risk arises from the Group's use of interest bearing, tradable and foreign currency financial instruments. It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates (interest rate risk), foreign exchange rates (foreign currency risk) or other market factors.

70 Notes to the Consolidated Financial Statements

FINANCIAL STATEMENTS

24. FINANCIAL RISK MANAGEMENT CONTINUED

Interest rate risk

The interest rate exposure profile of the Group's financial assets and liabilities as at 31 March 2017 and 31 March 2016 were:

	Nil rate assets and liabilities £'000	Floating rate assets £'000	Fixed rate liability £'000	Floating rate liability £'000	Total £'000
As at 31 March 2017					
Trade and other receivables	1,012	–	–	–	1,012
Cash and cash equivalents	–	11,181	–	–	11,181
Trade and other payables	(1,894)	–	–	–	(1,894)
Bank borrowings	–	–	(25,032)	(52,762)	(77,794)
Obligation under finance leases	–	–	(1,950)	–	(1,950)
	(882)	11,181	(26,982)	(52,762)	(69,445)
As at 31 March 2016					
Trade and other receivables	2,521	–	–	–	2,521
Cash and cash equivalents	–	8,576	–	–	8,576
Trade and other payables	(2,512)	–	–	–	(2,512)
Bank borrowings	–	–	–	(71,944)	(71,944)
Obligation under finance leases	–	–	(2,067)	–	(2,067)
	9	8,576	(2,067)	(71,944)	(65,426)

The Group is exposed to changes in interest rates as a result of the cash balances that it holds. The cash balances of the Group at the year end were £11,181,000 (2016: £8,576,000). The income statement would be affected by £112,000 (2016: £80,000) by a one percentage point change in floating interest rates on a full year basis.

The Group has loans amounting to £53,684,000 (2016: £72,678,000) which have interest payable at rates linked to the three month Libor interest rates or bank base rates. A 1% increase in the Libor or base rate will have the effect of increasing interest payable by £536,840 (2016: £726,780).

The Group is therefore relatively sensitive to changes in interest rates. The Directors regularly review its position with regard to interest rates in order to minimise the Group's risk.

Credit risk management

Credit risk refers to the risk that a counter-party will default on its contractual obligations resulting in financial loss to the Group.

The Group has its cash held on deposit with four large banks in the United Kingdom. At 31 March 2017 the concentration of credit risk held with Barclays Bank plc, the largest of these banks, was £7,770,015 (2016: £7,138,979). Credit risk on liquid funds is limited because the counterparty is a UK bank with a high credit rating assigned by international credit rating agencies.

Credit risk also results from the possibility of a tenant in the Group's property portfolio defaulting on a lease. The largest tenant by contractual income amounts to 6.7% (2016: 6.2%) of the Group's anticipated income. The Directors assess a tenants' credit worthiness prior to granting leases and employ professional firms of property management consultants to manage the portfolio to ensure that tenants debts are collected promptly and the directors in conjunction with the property managers take appropriate actions when payment is not made on time.

The carrying amount of financial assets (excluding cash balances) recorded in the financial statements, net of any allowances for losses, represents the Group's maximum exposure to credit risk without taking account of the value of any collateral obtained. The carrying amount of these assets at 31 March 2017 was £951,000 (2016: £2,521,000). The details of the provision for impairment are shown in note 13.

Liquidity risk management

The Group's policy is to hold cash and obtain loan facilities at a level sufficient to ensure that the Group has available funds to meet its medium-term capital and funding obligations, including organic growth and acquisition activities, and to meet certain unforeseen obligations and opportunities. The Group holds cash to enable the Group to manage its liquidity risk.

The Group monitors its risk to a shortage of funds using a monthly cash management process. This process considers the maturity of both the Group's financial investments and financial assets (e.g. accounts receivable, other financial assets) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of multiple sources of funding including bank loans, term loans, loan notes, overdrafts and finance leases.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments:

	On demand £'000	0–1 years £'000	1 to 2 years £'000	2 to 5 years £'000	> 5 years £'000	Total £'000
As at 31 March 2017						
Interest bearing loans	–	4,190	4,293	65,678	14,325	88,486
Finance leases	–	122	122	366	12,131	12,741
Trade and other payables	1,894	–	–	–	–	1,894
	1,894	4,312	4,415	66,044	26,456	103,121
	On demand £'000	0–1 years £'000	1 to 2 years £'000	2 to 5 years £'000	> 5 years £'000	Total £'000
As at 31 March 2016						
Interest bearing loans	–	4,529	19,967	57,234	–	81,730
Finance leases	–	130	130	386	12,831	13,477
Trade and other payables	2,521	–	–	–	–	2,521
	2,521	4,659	20,097	57,620	12,831	97,728

Derivative financial instruments

The Group does not currently use derivative financial instruments as hedging is not considered necessary. Should the Group identify a requirement for the future use of such financial instruments, a comprehensive set of policies and systems, as approved by the Directors, will be implemented.

In accordance with IAS 39, "Financial instruments: recognition and measurement", the Group has reviewed all contracts for embedded derivatives that are required to be separately accounted for if they do not meet specific requirements set out in the standard. No material embedded derivatives have been identified.

The Directors consider that the fair value of the Group's financial instruments are not materially different to their carrying value. This view was formed on the basis that, as indicated in note 16 of the financial statements, the majority of bank loans and the loan notes attracted a variable rate of interest and that the cash deposits, and trade payables and receivables, are short-term in nature. Consequently, in accordance with paragraph 29(a) of IFRS 7, no fair value information has been disclosed and the information in paragraph 97 of IFRS 13 is not required.

72 Company Statement of Financial Position

FINANCIAL STATEMENTS

	Note	2017 £'000	2016 £'000
Non-current assets			
Property, plant and equipment	4	27	37
Investments	3	42,683	39,483
Loans to subsidiary undertakings	3	38,682	35,650
		81,392	75,170
Current assets			
Trade and other receivables	5	9,928	11,402
Cash at bank and in hand		98	1,290
		10,026	12,692
Total assets		91,418	87,862
Current liabilities			
Creditors: amounts falling due within one year	6	(6,594)	(858)
Net current assets		3,432	11,834
Net assets		84,824	87,004
Equity			
Called up share capital	7	2,580	2,862
Share premium account		59,444	59,408
Treasury shares		(2,250)	
Merger reserve		3,503	3,503
Capital redemption reserve		340	65
Retained earnings		21,207	21,166
Equity – attributable to the owners of the parent		84,824	87,004

The Company's profit after tax for the year was £4,462,394 (2016: £21,845,313).

The financial statements were approved by the Board of Directors and authorised for issue on 5 June 2017 and are signed on its behalf by:

Stephen Silvester
Finance Director

Neil Sinclair
Chief Executive

73 Company Statement of Changes in Equity

FINANCIAL STATEMENTS

	Share Capital £'000	Share Premium £'000	Treasury shares £'000	Merger Reserve £'000	Capital redemption reserve £'000	Retained earnings £'000	Total equity £'000
At 31 March 2015	2,307	40,852	–	3,503	65	2,431	49,158
Total comprehensive income for the year	–	–	–	–	–	21,846	21,846
Issue of ordinary share capital net of expenses	555	18,556	–	–	–	–	19,111
Share-based payments	–	–	–	–	–	110	110
Dividends	–	–	–	–	–	(3,221)	(3,221)
At 31 March 2016	2,862	59,408	–	3,503	65	21,166	87,004
Total comprehensive income for the year	–	–	–	–	–	4,462	4,462
Redemption shares	–	–	(2,357)	–	–	–	(2,357)
Issue of ordinary share capital net of expenses	2	36	107	–	–	–	145
Redemption of deferred shares	(284)	–	–	–	275	–	(9)
Share-based payments	–	–	–	–	–	196	196
Dividends	–	–	–	–	–	(4,617)	(4,617)
At 31 March 2017	2,580	59,444	(2,250)	3,503	340	21,207	84,824

Share premium represents the excess over nominal value of the fair value consideration received for equity shares net of expenses of the share issue.

The merger reserve represents the excess over nominal value of the fair value consideration for the acquisition of subsidiaries satisfied by the issue of shares in accordance with S612 of the Companies Act 2006.

Treasury shares represents the consideration paid for shares bought back from the market.

The capital redemption reserve represents the value of preference shares capital redeemed.

74 Notes to the Company Financial Statements

FINANCIAL STATEMENTS

ACCOUNTING POLICIES

Palace Capital plc is a company incorporated in England & Wales under the Companies Act. The address of the registered office is given on the contents page and the nature of the Group's operations and its principal activities are set out in the strategic report. The financial statements of the Company have been prepared in accordance with FRS 102 the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires Company's management to exercise judgement in applying the Company's accounting policies (as detailed below).

DIVIDENDS REVENUE

Revenue is recognised when the Company's right to receive payment is established, which is generally when shareholders approve the dividend.

VALUATION OF INVESTMENTS

Investments in subsidiaries are measured at cost less accumulated impairment. Where merger relief is applicable, the cost of the investment in a subsidiary undertaking is measured at the nominal value of the shares issued together with the fair value of any additional consideration paid.

CURRENT TAXATION

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and the tax laws used to compute the amount are those that are enacted or substantively enacted, by the balance sheet date.

DEFERRED TAXATION

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in profit or loss, except when it relates to items charged or credited directly to other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

The government announced in the Summer 2015 budget the reduction in the corporation tax rate from the current 20% main rate in the tax year 2016 to 19% with effect from 1st April 2017 and to 17% from 1st April 2020.

Parent company disclosure exemptions

In preparing the separate financial statements of the parent company, advantage has been taken of the following disclosure exemptions available in FRS 102:

- no cash flow statement has been presented for the parent company;
- disclosures in respect of the parent company's financial instruments have not been presented as equivalent disclosures have been provided in respect of the Group as a whole;
- disclosures in respect of the parent company's share-based payment arrangements have not been presented as equivalent disclosures have been provided in respect of the Group as a whole; and
- no disclosure has been given for the aggregate remuneration of the key management personnel of the parent company as their remuneration is included in the totals for the Group as a whole.

JUDGEMENTS IN APPLYING ACCOUNTING POLICIES AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Investments and loans to subsidiary undertakings (see note 3)

The most critical estimates, assumptions and judgements relate to the determination of carrying value of unlisted investments in the Company's subsidiary undertakings and the carrying value of the loans that the Company has made to them.

The nature, facts and circumstance of the investment or loan are taken into account on assessing whether there are any indications of impairment.

76 Notes to the Company Financial Statements

FINANCIAL STATEMENTS

1. PROFIT FOR THE FINANCIAL PERIOD

The Company has taken advantage of section 408 of the Companies Act 2006 and consequently a profit and loss account for the Company alone has not been presented.

The Company's profit for the financial year has been arrived at after charging auditor's remuneration payable to BDO LLP for audit services to the Company of £50,000 (2016: £42,500). Fees payable to the auditor for the audit of subsidiary undertakings amounted to £21,000 (2016: £15,000) and for other services amounted to £26,000 (2016: £128,000).

2. TAXATION

	2017 £'000	2016 £'000
Current corporation tax charge	99	193
Deferred tax charge	–	–
Tax charge	99	193

3. INVESTMENTS

Cost:	Investments in subsidiaries £'000	Loans to subsidiaries £'000	Total £'000
At 1 April 2015	15,775	23,014	38,789
Acquisitions	1,822	–	1,822
Additions	916	35,136	36,052
Issue of new share capital	22,500	(22,500)	–
At 1 April 2016	41,013	35,650	76,663
Acquisitions	–	–	–
Additions	3,200	3,032	6,232
At 31 March 2017	44,213	38,682	82,895
Provision for diminution in value:			
At 1 April 2015	1,005	–	1,005
Provided during the year	525	–	525
At 1 April 2016	1,530	–	1,530
Provided during the year	–	–	–
At 31 March 2017	1,530	–	1,530
Net book value at 31 March 2017	42,683	38,682	81,365
Net book value at 31 March 2016	39,483	35,650	75,133

Loans to Subsidiaries

A loan amounting to £3,515,165 remains outstanding at 31 March 2017 (2016: £2,860,164) from Palace Capital (Leeds) Limited. Interest on this loan is charged at a fixed rate of 5% per year. This loan is repayable on 8 May 2019.

A loan amounting to £3,112,000 remains outstanding at 31 March 2017 (2016: £2,950,000) from Palace Capital (Northampton) Limited. Interest on this loan is charged at a fixed rate of 5% per year. This loan is repayable on 14 June 2020.

A loan amounting to £12,232,194 remains outstanding at 31 March 2017 (2016: £13,539,432) from Palace Capital (Developments) Limited. Interest on this loan is charged at a fixed rate of 5% per year. This loan is repayable on 31 March 2018.

A loan amounting to £15,195,335 remains outstanding at 31 March 2017 (2016: £13,808,464) from Palace Capital (Properties) Limited. Interest on this loan is charged at a fixed rate of 5% per year. This loan is repayable on 11 March 2021.

A loan amounting to £1,739,025 remains outstanding at 31 March 2017 (2016: £2,491,765) from Palace Capital (Halifax) Limited. Interest on this loan is charged at a fixed rate of 5% per year. This loan is repayable on 11 March 2021.

A loan amounting to £2,889,473 remains outstanding at 31 March 2017 (2016: Nil) from Palace Capital (Manchester) Limited. Interest on this loan is charged at a fixed rate of 5% per year. This loan is repayable on December 2020.

Investment in Subsidiaries

Year ending 31 March 2017

On 19 August 2016 the Company acquired Boulton House, Manchester. Following the acquisition, the name of Palace Capital (Milton Keynes) Limited was changed to Palace Capital (Manchester) Limited. The Company purchased £3,200,000 ordinary £1 share at Palace Capital (Manchester) Limited.

The Company owns 100% of Palace Capital (Properties) Limited which acquired 100% of shares in Palace Capital (Dartford) Limited.

Year ending 31 March 2016

On 17 June 2015 the Company acquired 100% of the share capital of O&H Northampton Limited for a cash consideration of £1. Following the acquisition the subsidiary changed its name to Palace Capital (Northampton) Limited.

On 17 August 2015 the Company acquired 100% of the share capital of Dering Properties (Sutton) Limited for a cash consideration of £902,619. Following the acquisition the subsidiary changed its name to Palace Capital (Sutton) Limited. On 26 January 2016 the subsidiary changed its name to Palace Capital (Properties) Limited.

On 11 March 2016 the Company acquired 100% of the share capital of Gregory Projects (Halifax) Limited for a cash consideration of £1. Following the acquisition the subsidiary changed its name to Palace Capital (Halifax) Limited. Costs associated with this acquisition amounting to £401,491 were capitalised.

On 31 March 2016 the Company purchased an additional 3,000,000 ordinary £1 shares at par in Palace Capital (Leeds) Limited in order to refinance the subsidiary.

On 31 March 2016 the Company purchased an additional 4,000,000 ordinary £1 shares at par in Palace Capital (Northampton) Limited in order to refinance the subsidiary.

On 31 March 2016 the Company purchased an additional 4,000,000 ordinary £1 shares at par in Palace Capital (Properties) Limited in order to refinance the subsidiary.

On 31 March 2016 the Company purchased an additional 6,500,000 ordinary £1 shares at par in Palace Capital (Halifax) Limited in order to refinance the subsidiary.

On 31 March 2016 the Company purchased an additional 5,000,000 ordinary £1 shares at par in Palace Capital (Developments) Limited in order to refinance the subsidiary.

The Company owns more than 20% of the following undertakings, all of which are incorporated in the United Kingdom, with registered address, Lower Ground Floor, One George Yard, London, EC3V 9DF, unless shown otherwise:

	Class of share held	% shareholding	Principal activity
Subsidiary undertaking:			
Palace Capital (Leeds) Limited	Ordinary	100	Property Investments
Palace Capital (Northampton) Limited	Ordinary	100	Property Investments
Palace Capital (Properties) Limited	Ordinary	100	Property Investments
Palace Capital (Developments) Limited	Ordinary	100	Property Investments
Palace Capital (Halifax) Limited	Ordinary	100	Property Investments
Palace Capital (Manchester) Limited	Ordinary	100	Property Investments
Hockenhull Estates Limited **	Ordinary	100	Property Investments
Quintain (Signal) Member A Limited	Ordinary	100	Holding
Quintain (Signal) Member B Limited*	Ordinary	100	Holding
Signal Property Investments LLP*	Member	100	Property Investments
Signal Investments LLP*	Member	100	Holding
Property Investment Holdings Limited	Ordinary	100	Property Investments
Meadowcourt Management (Meadowhall) Limited*	Ordinary	50	Property Management
Palace Capital (Dartford) Limited*	Ordinary	100	Property Management
Associate Company			
HBP Services Limited*	Ordinary	21.4	Property Management

* held indirectly

** Incorporated in Isle of Man - registered address: 68 Athol Street, Douglas, Isle of Man, IM1 1JE.

78 Notes to the Company Financial Statements

FINANCIAL STATEMENTS

4. PROPERTY, PLANT AND EQUIPMENT

	IT, fixtures and fittings £'000
At 1 April 2015	62
Additions	3
At 1 April 2016	65
Additions	11
At 31 March 2017	76
Depreciation	
At 1 April 2015	11
Provided during the period	17
At 1 April 2016	28
Provided during the period	21
At 31 March 2017	49
Net book value at 31 March 2017	27
Net book value at 31 March 2016	37

5. TRADE AND OTHER RECEIVABLES

	2017 £'000	2016 £'000
Current		
Amounts owed by subsidiary undertakings	7,059	10,377
Trade debtors	42	–
Corporation tax recoverable	9	–
Other debtors	27	28
Other taxes and social security	–	68
Accrued interest on amounts owed by subsidiary undertakings	2,753	865
Prepayments	38	64
	9,928	11,402

A loan amounting to £285,000 remains outstanding at 31 March 2017 (2016: £70,000) from Hockenhull Investments Limited. No interest is charged on this loan. This loan is repayable on demand.

A loan amounting to £6,774,583 remains outstanding at 31 March 2017 (2016: £6,183,515) from Quintain (Signal) Member A Limited. No interest is charged on this loan. This loan is repayable on demand.

6. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2017 £'000	2016 £'000
Trade creditors	56	437
Amount owed to subsidiary undertaking	6,005	–
Other taxes	59	28
Corporation tax	–	193
Accruals and deferred income	474	200
	6,594	858

A loan amounting to £5,448,850 remains outstanding at 31 March 2017 (2016: £10,754 debtor) to Property Investment Holdings limited. This loan is repayable on demand.

A loan amounting to £556,180 remains outstanding at 31 March 2017 (2016: £4,112,766 debtor) to Signal Property Investment LLP. This loan is repayable on demand.

7. SHARE CAPITAL

The details of the Company's share capital are provided in note 19 of the notes to the consolidated financial statements.

8. LEASES

Operating lease payments in respect of rents on leasehold properties occupied by the Company are payable as follows:

	2017 £'000	2016 £'000
Within one year	13	45
From one to two years	–	12
From two to five years	–	–
	13	57

9. POST BALANCE SHEET EVENT

The Company announced on the 2 May 2017 that it had entered into an agreement to acquire an office building for £20m subject to contract and is expected to complete in the Summer 2017.

80 Notice of Annual General Meeting

FINANCIAL STATEMENTS

Palace Capital plc (the "**Company**")

(Incorporated and registered in England and Wales under the Companies Act 1985 with registered number 05332938)

Notice is hereby given that the Annual General Meeting (**Meeting**) of the Company will be held at the offices of Hamblins LLP, Roxburghe House, 273–287 Regent Street, London W1B 2AD at 10.00 a.m. on 11 July 2017.

You will be asked to consider and vote on the resolutions below. Resolutions 1 to 6 will be proposed as ordinary resolutions and resolutions 7 to 9 will be proposed as special resolutions.

ORDINARY RESOLUTIONS

- 1 To receive the accounts and reports for the financial period ended 31 March 2017.
- 2 To re-appoint Mr Richard Starr as an Executive Director.
- 3 To re-appoint Mr Kim Taylor-Smith as a Non-Executive Director.
- 4 To re-appoint BDO LLP as auditors of the Company and to authorise the Directors to fix their remuneration.
- 5 To declare a final dividend of 9.5p per ordinary share in respect of the year ended 31 March 2017. This dividend will be paid on 28 July 2017 to the holders of ordinary shares at close of business on 7 July 2017.
- 6 That, in accordance with section 551, Companies Act 2006 (CA 2006), the Directors of the Company are generally and unconditionally authorised, and in substitution for any previous authority to allot Relevant Securities (as defined in this resolution) comprising equity securities (as defined in section 560, CA 2006) up to an aggregate nominal amount of £859,374.30, such authority, unless previously renewed, revoked or varied by the Company in general meeting, to expire at the close of the Company's next Annual General Meeting, except that the Directors of the Company may allot Relevant Securities pursuant to an offer or agreement made before the expiry of the authority not withstanding that the authority conferred by this resolution has expired. In this notice, Relevant Securities means any shares in the capital of the Company and the grant of any right to subscribe for, or convert any security into, shares in the capital of the Company.

Authority to Allot

Section 551, CA 2006 provides that the Directors of a company cannot issue new shares in its capital without the approval of the shareholders. Accordingly, the purpose of this resolution is to give the Directors of the Company authority to issue new shares in the capital of the Company up to a maximum nominal amount of £859,374.30 (representing approximately one third of the issued ordinary share capital of the Company as at the date of this notice). This resolution will allow the Directors of the Company flexibility to act in the best interests of the Company and its shareholders by issuing new shares in appropriate circumstances.

SPECIAL RESOLUTIONS

- 7 That, subject to and conditional on the passing of resolution 6, the Board be authorised to allot equity securities (as defined in CA 2006) for cash under the

authority given by that resolution and/or to sell ordinary shares of 10 pence each in the capital of the Company (Ordinary Shares) held by the Company as treasury shares for cash as if section 561, CA 2006 did not apply to any such allotment or sale, such authority to be limited:

- 7.1 to the allotment of equity securities for rights issues and other pre-emptive issues in favour of ordinary shareholders where their holdings are proportionate, as nearly as possible to the respective number of shares held, or deemed to be held by them, but subject to any exclusions or arrangements the Directors think necessary or expedient for dealing with fractional entitlements or legal or practical problems under the laws of any territory or the requirements of any recognised regulatory body or stock exchange in any territory; and
- 7.2 to the allotment of equity securities or sale of treasury shares (otherwise than under paragraph 7.1 of this resolution above) up to a nominal value of £129,001.40.

such authority to expire at the end of the next Annual General Meeting of the Company but, in each case, prior to its expiry the Company may make offers, and enter into agreements, which would, or might, require equity securities to be allotted (and/or treasury shares to be sold) after the authority expires and the Board may allot equity securities (and sell treasury shares) under any such offer or agreement as if the authority had not expired.

Disapplication of Pre-emption Rights

If shares are to be allotted by the Company, Section 561 of the Companies Act 2006 requires that except to the extent dis-applied by shareholders, those shares be offered first to existing shareholders in proportion to their shareholdings. However, it may sometimes be in the interests of the Company for the Directors to have greater flexibility.

The Directors have elected to follow the approach recommended as good practice by the Pre-emption Group in proposing resolutions to disapply pre-emption rights, which consists of two resolutions as follows:

Resolution 7 – to disapply pre-emption rights on up to five percent of the issued share capital; and

Resolution 8 – to disapply pre-emption rights for an additional five percent for transactions which the Board determines to be an acquisition or other specified capital investment. Acquisition and specified capital investments are defined by the Statement of Principles as one or more specific capital investment related uses for the proceeds of an issuance of equity securities, in respect of which sufficient information regarding the effect of the transaction on the listed company, the assets the subject of the transaction and (where appropriate) the profits attributable to them is made available to shareholders to enable them to reach an assessment of the potential return. Items that are regarded as operating expenditure rather than capital expenditure will not typically be regarded as falling within the term "specified capital investment". This greater freedom to execute non-pre-emptive issues of equity securities in

connection with an acquisition or specified capital investment is intended to allow companies the opportunity to finance expansion opportunities as and when they arise.

The Company is seeking to follow this recommended approach by proposing these resolutions in the prescribed form. When an additional five percent disapplication authority is used, the Company will disclose in the relevant placing announcement the circumstances that have led to its use and detail the consultation process undertaken by the Company.

The Directors have no present intention to exercise the authority conferred by resolutions 7 or 8.

8 That, subject to and conditional on the passing of resolution 6, the Board be authorised in addition to any authority granted under resolution 7 to allot equity securities (as defined in CA 2006) for cash under the authority given by that resolution and/or to sell Ordinary Shares held by the Company as treasury shares for cash as if section 561, CA 2006 did not apply to any such allotment or sale, such authority to be:

8.1 limited to the allotment of equity securities or sale of treasury shares up to a nominal amount of £129,001.40; and

8.2 used only for the purposes of financing (or refinancing, if the authority is to be used within six months after the original transaction) a transaction which the Board of the Company determines to be an acquisition or other capital investment of a kind contemplated by the Statement of Principles on Disapplying Pre-Emption Rights most recently published by the Pre-Emption Group prior to the date of this notice,

such authority to expire at the end of the next Annual General Meeting but prior to its expiry the Company may make offers, and enter into agreements, which would, or might, require equity securities to be allotted (and treasury shares to be sold) after the authority expires and the Board may allot securities (and sell treasury shares) under any such offer or agreement as if the authority had not expired.

9 THAT the Company be, and it is hereby, generally and unconditionally authorised for the purpose of sections 693 and 701 of the Companies Act 2006 (Act) to make one or more market purchases (within the meaning of section 693(4) of the Act) of Ordinary Shares upon such terms and in such manner as the Directors of the Company shall determine, provided that:

- a. The maximum aggregate number of Ordinary Shares authorised to be purchased is 2,580,028 (representing approximately 10 percent of the Company's total issued ordinary share capital);
- b. The minimum price (exclusive of expenses) which may be paid for each such Ordinary share is 10 pence;
- c. The maximum price (exclusive of expenses) which may be paid for each such Ordinary Share is an amount equal to the higher of:

- i. 105 percent of the average of the closing middle market price for an Ordinary Share as derived from the AIM Appendix to the London Stock Exchange Daily Official List for the five business days immediately prior to the day the purchase is made; and
 - ii. the price stipulated by Article 5(1) of Commission Regulation (EC) No 2273/2003 (the Buy-back and Stabilisation Regulation);
- d. unless previously renewed, varied or revoked, the authority hereby conferred shall expire at the conclusion of the next annual general meeting of the Company or, if earlier, the expiry of a period of 15 months from the date of the passing of this resolution; and
- e. the Company may make a contract to purchase Ordinary Shares under this authority prior to its expiry which will or may be executed wholly or partly after such expiry and may make a purchase of Ordinary Shares in pursuance of any such contract.

Authority to make market purchases of own shares

This resolution seeks authority for the Company to make market purchases of its own Ordinary Shares and is proposed to Special Resolution. If passed, the resolution gives authority to give the Company to purchase up to 2,580,028 Ordinary Shares, representing just under 10% of the Company's issued ordinary share capital (excluding treasury shares) as at the date of this notice. The resolution specifies the minimum and maximum prices, which may be paid for any Ordinary Shares purchased under this authority. The authority will expire on the earlier of the conclusion of the next Annual General Meeting of the Company or the expiry of a period of fifteen months from the date of the passing of the resolution.

The Directors do not currently have any intention of exercising the authority granted by this resolution. The Directors will only exercise the authority to purchase Ordinary Shares where they consider such purchases will be in the best interest of shareholders generally and will result in an increase in earnings per Ordinary Share.

The Company may either cancel any shares of purchases under this authority or transfer them into treasury (and subsequently sell or transfer them out of treasury or cancel them).

The explanatory notes in italics do not form part of the resolution to which they respectively refer.

By order of the Board

David M Kaye
Company Secretary

5 June 2017

Registered office
Lower Ground Floor
One George Yard
London
EC3V 9DF

82 Notice of Annual General Meeting

FINANCIAL STATEMENTS

NOTES TO THE NOTICE OF ANNUAL GENERAL MEETING

Entitlement to attend and vote

- 1 Only those members registered on the Company's register of members at:
 - 10.00 a.m. on 7 July 2017; or,
 - if this Meeting is adjourned, at 48 hours (excluding any part of a day that is not a working day) prior to the adjourned Meeting, shall be entitled to attend and vote at the Meeting.

Attending in person

- 2 If you wish to attend the Meeting in person, please arrive at the offices of Hamblins LLP, Roxburghe House, 273-287 Regent Street, London W1B 2AD (the nearest underground station is Oxford Circus) at 09.30 a.m. on 11th July 2017 (commencement of registration); the Meeting will commence at 10.00 a.m. Please bring this notice with you. Representatives of corporate shareholders will have to produce evidence of their proper appointment when attending the Meeting. Please contact the Company's Registrar, Capita Asset Services, PXS, 34 Beckenham Road, Beckenham, Kent, BR3 4TU, if you require further guidance on this.

Appointment of proxies

- 3 If you are a member of the Company at the time set out in note 1 above, you are entitled to appoint a proxy to exercise all or any of your rights to attend, speak and vote at the Meeting and you should have received a proxy form with this notice of Meeting. You can only appoint a proxy using the procedures set out in these notes and the notes to the proxy form.
- 4 If you are not a member of the Company but you have been nominated by a member of the Company to enjoy information rights, you do not have a right to appoint any proxies under the procedures set out in this "Appointment of proxies" section. Please read the section "Nominated persons" below.
- 5 A proxy does not need to be a member of the Company but must attend the Meeting to represent you. Details of how to appoint the Chairman of the Meeting or another person as your proxy using the proxy form are set out in the notes to the proxy form. If you wish your proxy to speak on your behalf at the Meeting you will need to appoint your own choice of proxy (not the Chairman) and give your instructions directly to them.
- 6 You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. You may not appoint more than one proxy to exercise rights attached to any one share. To appoint more than one proxy, please contact the Company's Registrar, Capita Asset Services, PXS, 34 Beckenham Road, Beckenham, Kent, BR3 4TU.

- 7 A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, your proxy will vote or abstain from voting at his or her discretion. Your proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the Meeting.

Appointment of proxy using hard copy proxy form

- 8 The notes to the proxy form explain how to direct your proxy how to vote on each resolution or withhold their vote.

To appoint a proxy using the proxy form, the form must be:

- completed and signed;
- sent or delivered to Company's Registrar, Capita Asset Services, PXS, 34 Beckenham Road, Beckenham, Kent, BR3 4TU; and
- received by Capita Asset Services no later than 10.00 a.m. on 7th July 2017.

In the case of a member which is a company, the proxy form must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company.

Any power of attorney or any other authority under which the proxy form is signed (or a duly certified copy of such power or authority) must be included with the proxy form.

Appointment of proxies through CREST

- 9 CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so for the Meeting and any adjournment(s) of it by using the procedures described in the CREST Manual (available from <https://www.euroclear.com/site/public/EUI>). CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (a CREST Proxy Instruction) must be properly authenticated in accordance with Euroclear UK & Ireland Limited's (EUI) specifications and must contain the information required for such instructions, as described in the CREST Manual. The message must be transmitted so as to be received by the issuer's agent (IDRA10) by 10.00 a.m. on 7 July 2017. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST.

CREST members and, where applicable, their CREST sponsors or voting service providers should note that EUI does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

Appointment of proxy by joint members

10 In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first-named being the most senior).

Changing proxy instructions

11 To change your proxy instructions simply submit a new proxy appointment using the methods set out above. Note that the cut-off time for receipt of proxy appointments (see above) also apply in relation to amended instructions; any amended proxy appointment received after the relevant cut-off time will be disregarded.

Where you have appointed a proxy using the hard-copy proxy form and would like to change the instructions using another hard-copy proxy form, please contact Capita Asset Services, PXS, 34 Beckenham Road, Beckenham, Kent, BR3 4TU.

If you submit more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence.

Termination of proxy appointments

12 In order to revoke a proxy instruction you will need to inform the Company by sending a signed hard copy notice clearly stating your intention to revoke your proxy appointment to Capita Asset Services, PXS, 34 Beckenham Road, Beckenham, Kent, BR3 4TU. In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice.

The revocation notice must be received by Capita Asset Services no later than 10.00 a.m. on 7th July 2017.

If you attempt to revoke your proxy appointment but the revocation is received after the time specified then, subject to the paragraph directly below, your proxy appointment will remain valid.

Appointment of a proxy does not preclude you from attending the Meeting and voting in person. If you have appointed a proxy and attend the Meeting in person, your proxy appointment will automatically be terminated.

Corporate representatives

13 A corporation which is a member can appoint one or more corporate representatives who may exercise, on its behalf, all its powers as a member provided that no more than one corporate representative exercises powers over the same share.

84 Officers and Professional Advisers

FINANCIAL STATEMENTS

DIRECTORS

Stanley Davis	Chairman
Neil Sinclair	Chief Executive
Stephen Silvester	Finance Director
Richard Starr	Executive Director
Anthony Dove	Non-Executive Director
Kim Taylor-Smith	Non-Executive Director

SECRETARY

David Kaye F.C.I.S.

REGISTERED OFFICE

One George Yard
London
EC3V 9DF

BUSINESS ADDRESS

25 Bury Street
London
SW1Y 6AL

REGISTERED NUMBER

05332938 (England and Wales)

AUDITOR

BDO LLP
55 Baker Street
London
W1U 7EU

REGISTRAR

Capita Registrars Limited
The Registry
34 Beckenham Road
Beckenham,
Kent
BR3 4TA

NOMINATED ADVISER AND BROKER

Allenby Capital Limited
3 St. Helen's Place
London
EC3A 6AB

JOINT BROKER

Arden Partners plc
125 Old Broad Street
London
EC2N 1AR

SOLICITORS

Hamlin's LLP

Roxburghe House
273–287 Regent Street
London
W1B 2AD

CMS Nabarro Olswang LLP

1 South Quay
Victoria Quays
Sheffield
S2 5SY

Walker Morris LLP

Kings Court
12 King Street
Leeds
LS1 2HL

INVESTOR & PUBLIC RELATIONS

Capital Access Group

Sky Light City Tower
50 Basinghall Street
London
EC2V 5DE

BANKERS

Barclays Bank PLC

69 Albion Street
Leeds
LS1 5AA

Lloyds Bank plc

25 Gresham Street
London
EC2V 7HN

Santander UK plc

Bootle
Merseyside
L30 4GB

Nationwide Building Society

Kings Park Road
Moulton Park
Northampton
NN3 6NW

National Westminster Bank Plc

16 The Boulevard
Crawley
West Sussex
RH10 1XU

85 Glossary

FINANCIAL STATEMENTS

Adjusted EPS: Is Adjusted profit before tax less corporation tax charge (excluding deferred tax movements) divided by the average basic number of shares in the period.

Adjusted profit before tax: Is the IFRS profit before taxation excluding investment property revaluations, gains/losses on disposals, acquisition costs, fair value share-based payments, one-off finance termination costs and one-off surrender premiums received.

Assets under Management (AUM): Is a measure of the total market value of all properties owned by the Group.

Balance sheet gearing: Is the balance sheet net debt divided by IFRS net assets.

Dividend cover: Adjusted Earnings per share divided by dividend per share declared in the period.

EPRA: Is the European Public Real Estate Association.

EPRA diluted EPS: Is EPRA earnings divided by the average diluted number of shares in the period.

EPRA earnings: Is the IFRS profit after taxation excluding investment property revaluations and gains/losses on disposals.

EPRA EPS: Is EPRA earnings divided by the average basic number of shares in the period.

EPRA net assets (EPRA NAV): Are the balance sheet net assets excluding the mark to market on effective cash flow hedges and related debt adjustments, deferred taxation on revaluations and diluting for the effect of those shares potentially issuable under employee share schemes.

EPRA NAV per share: Is EPRA NAV divided by the diluted number of shares at the period end.

Equivalent yield: Is the net weighted average income return a property will produce based upon the timing of the income received. In accordance with usual practice, the equivalent yields (as determined by the external valuers) assume rent received annually in arrears and on values before deducting prospective purchaser's costs.

Estimated rental value (ERV): Is the external valuers' opinion as to the open market rent which, on the date of valuation, could reasonably be expected to be obtained on a new letting or rent review of a property.

IAS/IFRS: Is the International Financial Reporting Standards issued by the International Accounting Standards Board and adopted by the EU.

Interest cover: Is the number of times net interest payable is covered by underlying profit before net interest payable and taxation.

LIBOR: Is the London Interbank Offered Rate, the interest rate charged by one bank to another for lending money.

Like-for-like net rental income: Is the change in net rental income on properties owned throughout the current and previous periods under review. This growth rate includes revenue recognition and lease accounting adjustments but excludes properties held for development in either period, properties with guaranteed rent reviews, asset management determinations and surrender premiums.

Like-for-like valuation: Is the change in the carrying value of properties owned throughout the entire year. This excludes properties acquired during the year and disposed of during the year.

Net Loan to Value (LTV): Is the ratio of gross debt less cash, short-term deposits and liquid investments to the aggregate value of properties and investments.

Net asset value (NAV) per share: Is the equity attributable to owners of the Group divided by the number of Ordinary Shares in issue at the period end.

Net equivalent yield: Is the weighted average income return (after adding notional purchaser's costs) a property will produce based upon the timing of the income received. In accordance with usual practice, the equivalent yields (as determined by the external valuers) assume rent is received annually in arrears.

Net initial yield: Is the current annualised rent, net of costs, expressed as a percentage of capital value, after adding notional purchaser's costs.

Net rental income: Is the rental income receivable in the period after payment of net property outgoings. Net rental income will differ from annualised net rents and passing rent due to the effects of income from rent reviews, net property outgoings and accounting adjustments for fixed and minimum contracted rent reviews and lease incentives.

Reversionary yield: Is the anticipated yield, which the initial yield will rise to once the rent reaches the estimated rental value.

Tenant (or lease) incentives: Are any incentives offered to occupiers to enter into a lease. Typically the incentive will be an initial rent-free period, or a cash contribution to fit-out or similar costs. Under accounting rules the value of lease incentives given to tenants is amortised through the Income Statement on a straight-line basis to the lease expiry.

Total Accounting Return (TAR): Is the increase or decrease in EPRA NAV per share plus dividends paid, and this can be expressed as a percentage of EPRA NAV per share at the beginning of the period.

Total Shareholder Return (TSR): Is calculated by the growth in capital from purchasing a share in the Company assuming that the dividends are reinvested each time they are paid.

Weighted average debt maturity: Is measured in years when each tranche of Group debt is multiplied by the remaining period to its maturity and the result is divided by total Group debt in issue at the period end.

Weighted average unexpired lease term (WAULT): Is the average lease term remaining to first break, or expiry, across the portfolio weighted by rental income. This is also disclosed assuming all break clauses are exercised at the earliest date, as stated.



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